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U.S. Board of Investigation and...

Summary report on study of interterritorial freight...

[Washington]

[1943]

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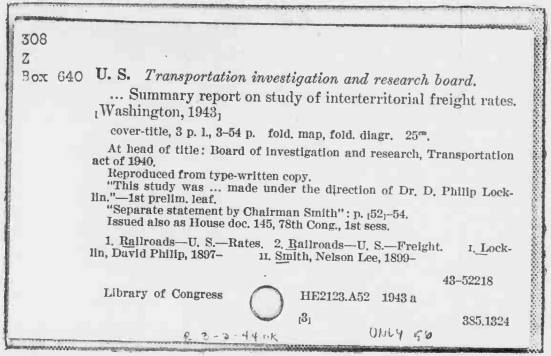

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Board of Investigation and Research
TRANSPORTATION ACT OF 1940

SUMMARY REPORT

ON STUDY OF

INTERTERRITORIAL FREIGHT RATES

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Board of Investigation and Research
TRANSPORTATION ACT OF 1940
DUPONT CIRCLE BUILDING
Washington

March 30, 1943

SEP 30 1943 FCR

Sirs:

The Board of Investigation and Research has the honor to transmit to the President and the Congress a Summary Report on its study of Interterritorial Freight Rates.

This study was undertaken by the Board in December 1941 and has been made under the direction of Dr. D. Philip Locklin, Professor of Economics and Transportation at the University of Illinois, who has devoted his entire time to this work for more than a year. The full report of the Board, containing the detailed data and analysis upon which this Summary Report is based, is now being prepared for publication and will be filed within a few weeks.

The conclusions and the recommendations of the Board are stated at the end of the Summary Report, together with a separate expression of the position of one of the members.

Respectfully,

Nelson Lee Smith

Chairman

Robert E. Webb

C. E. Childe

The President
The Vice President
The Speaker of the House of Representatives

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BOARD OF INVESTIGATION AND RESEARCH

Transportation Act of 1940

SUMMARY REPORT ON STUDY OF INTERTERRITORIAL FREIGHT RATES

To the President and the Congress of the United States:

The investigation of interterritorial freight rates was undertaken after there had been in the Congress an expression of a desire that the subject be investigated by the Board. In the conduct of the investigation the following objectives have been kept in mind: first, to present a picture of the level and structure of interterritorial rates and their relation to intraterritorial rates; second, to make an appraisal, from the point of view of the national economy, of the criticisms which have been directed at the present rate levels and relationships; and third, to consider the practicability of changes in the levels and structures of the rates -- all for the purpose of aiding in the formulation of sound public policy in dealing with the problem.

The Interstate Commerce Commission is at the present time engaged in an investigation of interterritorial class rates and the several freight classifications in Dockets No. 28300, Class Rate Investigation, 1939, and No. 28310, Consolidated Freight Classification. The investigation undertaken by the Board is necessarily of a different character than that instituted by the Interstate Commerce Commission. The Commission's investigation deals only with the freight classification, and with the class-rate structure in that part of the United States lying, roughly, east of the Rocky Mountains, whereas the Board's inquiry includes the entire structure of rates, class and commodity, throughout the country. The Board, furthermore, is not investigating the lawfulness or unlawfulness of present rates under existing statutes, which is a matter within the jurisdiction of the Interstate Commerce Commission, and nothing said in this report should be construed as an expression of opinion as to the proceedings now before the Commission. The Board is interested primarily in the economic effects of existing and proposed rate levels and structures upon the national economy, and in questions of public policy which are involved in the controversy.

I

STATEMENT OF THE PROBLEM

The railroad freight-rate structures in the United States have developed on a regional basis. Five major rate territories are recognized. These are known as Eastern or Official Territory, Southern Territory, Western Trunk-Line Territory, Southwestern Territory, and Mountain-Pacific Territory. The location of these territories is shown on the accompanying map.1/

In a discussion of freight rates it is necessary to distinguish between class rates and commodity rates. Class rates are the rates which apply on the limited number of "classes" of freight into which articles are grouped by the freight classification. There are three major railroad freight classifications in effect in the United States. The Official Classification applies in Official or Eastern Territory; the Southern Classification in Southern Territory, and the Western Classification in Western Trunk-Line, Southwestern, and Mountain-Pacific territories. Commodity rates are rates published on specific commodities directly instead of through the medium of the freight classification. Commodity rates are generally lower than the class rates on the same article. Most of the tonnage of the country, particularly of low-grade commodities, moves on commodity rates.

Within each of the major rate territories a separate basis of class rates exists. Commodity-rate structures sometimes have territorial groupings of their own, although the latter often correspond more or less closely to the class-rate territories. There is also some subdivision of the five major rate territories. The subdivisions recognized

---

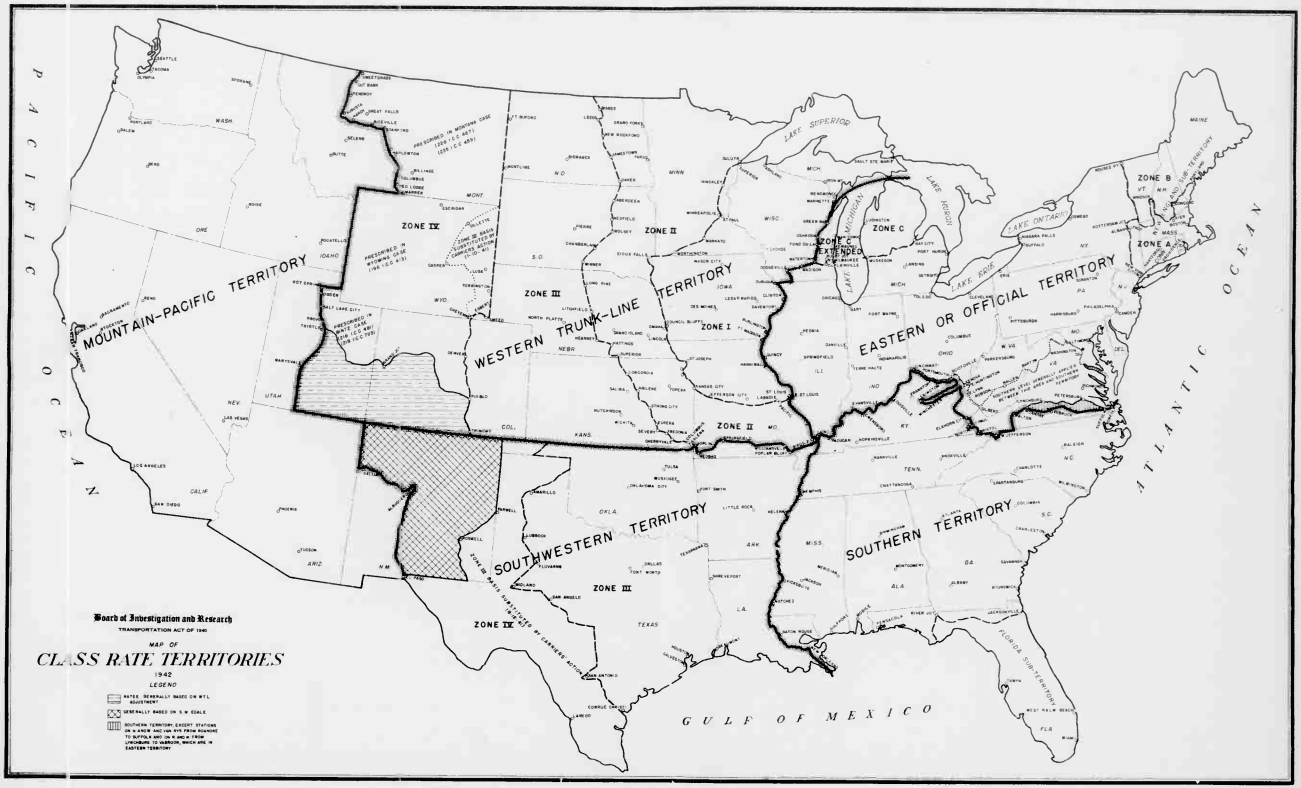
1/ Explanation of Map of Class-Rate Territories

The map is based on the intraterritorial adjustments. The boundaries of the various territories are often different for the purposes of making interterritorial rates. Thus on traffic between Western Trunk-Line Territory and Southern Territory, the latter is enlarged to include part of the area shown on the map as within Eastern or Official Territory. Likewise in the adjustment between Western Trunk-Line Territory and Southern Territory, extended Zone C in Wisconsin, shown on the map as in Eastern or Official Territory, is considered part of Western Trunk-Line Territory.

Western Trunk-Line Territory, as shown on the map, is extended westward beyond the traditional boundaries. Citations to Interstate Commerce Commission decisions indicated on the map are the authority for considering the areas involved as within zone IV of Western Trunk-Line Territory so far as the intraterritorial rates are concerned.

The portion of New Mexico indicated by cross-hatching has rates generally related to the southwestern basis. Although no class rates were prescribed by the Commission for this area, the Commission has, in a number of complaint cases, treated the area the same as adjacent Southwestern Territory.

Class rates to and from that portion of Colorado south of the main line of the Denver, Rio Grande & Western Railroad and west of the Colorado common points were not involved in the cases in which class rates were established for Western Trunk-Line or Southwestern territories. Rates between points in this area and points in Western Trunk-Line Territory are usually combinations on the Colorado Common Points, and hence are tied into the Western Trunk-Line adjustment. Between this area and points west the rates are related to either the Mountain-Pacific or the transcontinental rates.


PACIFIC OCEAN
ATLANTIC OCEAN
GULF OF MEXICO
MOUNTAIN-PACIFIC TERRITORY
WESTERN TRUNK-LINE TERRITORY
EASTERN OR OFFICIAL TERRITORY
SOUTHWESTERN TERRITORY
SOUTHERN TERRITORY
ZONE I
ZONE II
ZONE III
ZONE IV
ZONE A
ZONE B
ZONE C
ZONE C EXTENDED
FLORIDA SUB-TERRITORY
LAKE SUPERIOR
LAKE MICHIGAN
LAKE HURON
LAKE ONTARIO
LAKE ERIE
Board of Investigation and Research
TRANSPORTATION ACT OF 1940
MAP OF
CLASS RATE TERRITORIES
1942
LEGEND
RATES GENERALLY BASED ON MTL EQUIPMENT
GENERALLY BASED ON S.W. SCALE
SOUTHERN TERRITORY, EXCEPT STATIONS ON OR NORTH OF LINE FROM NORFOLK TO ELKINS AND ON OR EAST OF LINE FROM LYNCHBURG TO WAYNESBORO, WHICH ARE IN EASTERN TERRITORY

in the class-rate structure are shown on the map. On various commodities taking commodity rates, Eastern or Official Territory has different levels and structures in the three subterritories into which it was historically divided. These are New England Territory, Trunk-Line Territory (extending as far west as a line from Buffalo to Pittsburgh) and Central Freight Association Territory, or Central Territory, which comprises that portion of Official Territory west of the Buffalo-Pittsburgh line.

The class-rate structures differ principally in the number of regular "Classes" of freight, in the percentage relations of the rates on these classes to the first-class rates, in the levels of the basic first-class rate scales, and in the rates of progression of the scales as lengths of haul increase.

The existence of these regional rate structures is to be explained, in part, in terms of the historical development of the railroads. Comparatively few railroads cross the boundaries between the three major classification territories. Within each territory, however, a network of lines exists, which makes cooperation between railroads in the construction of classifications and rates almost necessary unless there is to be virtual chaos in rates. The development of classifications and rate structures took place on a regional basis, with the railroads serving a given region working out a rate structure in which they were willing to participate. In fact, prior to the leading cases in which more or less standardized class-rate structures within regions were established by the Interstate Commerce Commission, numerous territorial subdivisions existed, each with its own peculiarities in the structure of rates. The present regional system represents a step toward uniformity as compared with the even greater degree of regionalization which previously existed.

That the present regionalized rate structures should lack uniformity is not strange. Such differences grow out of different conditions existing within the various territories, and differences in the views of rate-making officials concerning a reasonable and proper rate structure. Each rate structure is the product of the policies of rate-making officials of the railroads, with whom initiative in rate making rests, modified by the pressures of shipper groups seeking rates which would be advantageous to their interests, and modified further by the policies of State and Federal regulatory authorities.

Interterritorial rates are those applying from a point in one territory to a point in another. Where the rate level in one territory is higher than in another, the level of interterritorial rates between the two territories is generally higher than the rate level within the lower-rated territory. Sometimes the level of the interterritorial rate equals or exceeds the level of the rates applying in the higher-rated territory. The greater the differences in rate levels in the different territories and the more divergent the rate structures, the more difficult becomes the problem of constructing interterritorial rates. The construction of interterritorial rates raises two problems: first, the extent to which the levels and structures in two territories should be blended or compromised; and, second, the propriety of the regional levels themselves.

Complaints concerning interterritorial rates come from shippers in the areas having the higher rate levels who find themselves at a disadvantage in competing with shippers of the same products located within lower-rated territories. Producers who must pay the higher interterritorial rates naturally seek to remove the rate disparities by seeking rates on the "destination level" on interterritorial shipments. Sometimes, also, producers in a higher-rated territory seek rates from the lower-rated to the higher-rated territory on the basis of the higher level in order to protect their markets from the inroads of products made in the lower-rated areas. Manufacturers located in higher-rated territories also complain of the rates they pay on materials from a lower-rated territory, when their product must be sold in competition with manufacturers located in the lower-rated territory who can obtain the materials from the same source at lower intraterritorial rate levels. Distributors likewise complain of rates which they pay on goods from the lower-rated territory which must be sold in competition with distributors located in the lower-rated territory. The difficulties of producers in the higher-rated areas are often taken up by organizations representing the particular region or area, and result in charges of regional unfairness and discrimination in the rate structure. These rate differences are often alleged to be deterrents to the economic development of the regions with the higher rate level. They are criticized particularly on the ground that they prevent the development of manufacturing enterprises in areas which have not become industrialized, and that they have played no small part in bringing about a concentration of industrial activity in Eastern Territory.

In considering the interterritorial rate problem, five things must be considered: (1) the differences in regional rate levels, (2) the methods of constructing interterritorial rates and their resulting levels, (3) justification of the differences in intraterritorial rate levels, (4) the economic effects of differences in regional levels and the levels of interterritorial rates, and (5) proposals for dealing with the situation.

II

CLASS-RATE LEVELS

Within each of the five major territories there is a basic scale of first-class rates, applying generally throughout the territory.2/ The strictly distance basis of class rates is modified by a certain amount of grouping origins and destinations, by various special adjustments, and by key-point rates which are not strictly on the scales.

A. Levels of First-Class Rates

The first-class rates for various distances are shown in Chart I. These scales reflect the 10-percent increases in rates authorized (on most commodities which move on class rates) by the Interstate Commerce Commission in Ex Parte 123, Fifteen Percent Case, 1937-1938, 226, I.C.C. 41 (1938).3/

The lowest scale is the Eastern or Official Territory scale, and the highest is the Western Trunk-Line Zone-IV scale. The next to the lowest scale is that applicable in Western Trunk-Line Zone I. The Southern scale is somewhat higher than the Western Trunk-Line Zone-I scale.

The percentage relation of the rates under the various scales to the Official Territory rates is not constant for the various mileage blocks. If the average of Official Territory first-class rates, for distances up to 1,000 miles, be taken as 100, the average relation of the first-class rates in other territories to the Official Territory rates may be expressed as follows:

Eastern or Official	100
Southern	139
Western Trunk-Line, Zone I	128
Western Trunk-Line, Zone II	146
Western Trunk-Line, Zone III and Southwestern	161
Western Trunk-Line, Zone IV	184
Mountain-Pacific	166

B. Effect of Differences in Classification Ratings

The relationship of the first-class rates in the various territories expresses also the relation of rates on the other classes to the extent that their percentage relationships to first class are the

2/ There are different scales applying in Zones, I, II, III, and IV of Western Trunk-Line Territory. Special treatment is also accorded certain subterritories in Eastern and Southern territories.

3/ The scales do not reflect the subsequent increases of 6 percent authorized for the period of the war in Ex Parte 148, 248 I.C.C. 545 (1942).

same in each territory.4/ But when articles are rated differently in two different rate territories, in percent of first class, the above relationships do not hold true. Differences in ratings may increase or decrease the differences in rates, or may even result in higher rates on a given article in the territory in which the first-class rate is the lower.

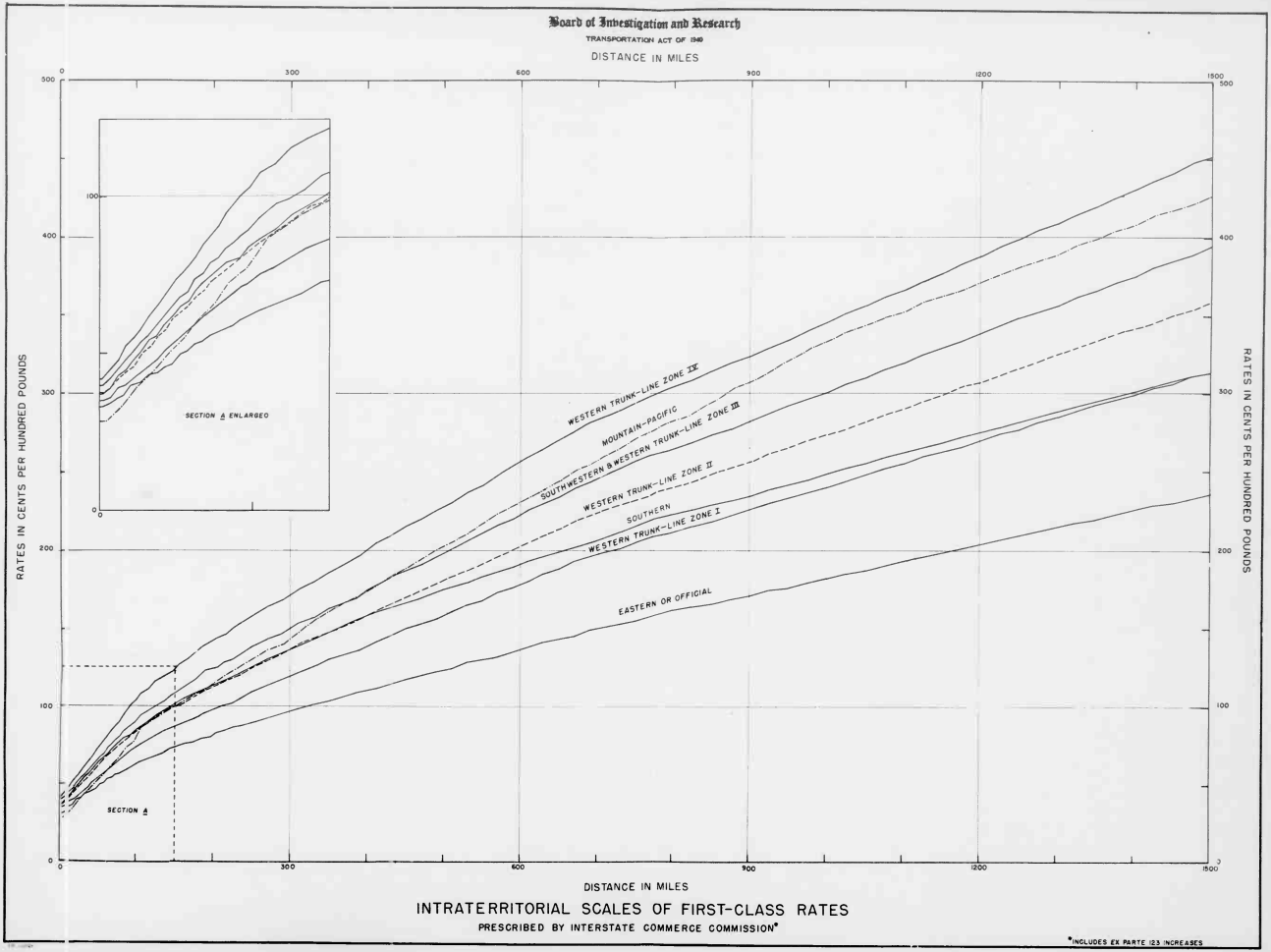
It is conceivable that enough articles might be rated lower in a territory having a high level of first-class rates to make the average level of class rates lower than in the territory having lower first-class rates. An examination of the freight classification, however, shows that the average relation to first class of the rates on all articles combined is nearly the same in all territories except Mountain-Pacific Territory. In the latter, several of the regular classes have rates which are a higher percent of first class than the same classes in Western Trunk-Line and Southwestern territories. The result is to make the average relation to first class higher in Mountain-Pacific Territory than in the rest of Western Territory. The average relation of ratings in the various territories to first class is as follows:

	Less Carload	Carload	All Ratings
Official.....	86.93	49.72	68.26
Southern.....	85.86	50.53	68.14
Western Trunk-Line and Southwestern.....	87.11	51.04	69.02
Mountain-Pacific.....	88.01	56.67	72.30

The above figures mean that the average relation of the classification ratings to first class is so close in all territories, with the exception of Mountain-Pacific Territory, that the average relation of the first-class rates in the various territories expresses roughly the average relation of the class rates as published, if no consideration is given to changes in ratings made by published "exceptions to the classification."

4/ The class designations of the regular classes of freight and the relation of the rates thereon to first-class rates in each classification territory are shown below. In addition to the regular numbered and lettered classes other ratings are shown in the classification as a percent of first class.

Official		Southern		Western		
Class Designation	Percent of First Class	Class Designation	Percent of First Class	Class Designation	Percent of First Class	
					Western Trunk-Line and Southwestern	Mountain Pacific
1	100	1	100	1	100	100
[illegible]	85	2	85	2	85	85
Rule 29	70	3	70	3	70	70
3	70	4	55	4	55	60
Rule 28	55	5	45	A	45	50
4	50	6	40	B	37½	50
5	35	7	35	B	32½	40
6	27½	8	30	C	30	30
[illegible]		9	25	D	22½	25
		10	22½	E	17½	20
		11	20			
		12	17½			


Board of Investigation and Research
TRANSPORTATION ACT OF 1940
DISTANCE IN MILES
0
300
600
900
1200
1500
RATES IN CENTS PER HUNDRED POUNDS
500
400
300
200
100
0
SECTION A ENLARGED
SECTION A
WESTERN TRUNK-LINE ZONE IV
MOUNTAIN-PACIFIC
SOUTHWESTERN & WESTERN TRUNK-LINE ZONE III
WESTERN TRUNK-LINE ZONE II
SOUTHERN
WESTERN TRUNK-LINE ZONE I
EASTERN OR OFFICIAL
DISTANCE IN MILES
INTRATERRITORIAL SCALES OF FIRST-CLASS RATES
PRESCRIBED BY INTERSTATE COMMERCE COMMISSION*
*INCLUDES EX PARTE 123 INCREASES

C. Effect of Classification Exceptions

In all territories the carriers publish exceptions to the classification. Some of the exceptions are of very limited territorial application; others are quite general in character, applying for the most part throughout the territory. A detailed analysis of the classification exceptions ratings in Official, Southern, Western Trunk-Line and Southwestern Territories in effect on March 17, 1942 has been made.5/

The percentages of the commodity descriptions in the classification which have been given exceptions ratings having general applicability throughout most of the territory considered are shown as follows:

	Carloads	Less-Carloads	Any-Quantity	Total
Official.....	20%	14%	31%	17%
Southern.....	19	42	43	31
Western Trunk-Line...	37	14	28	26
Southwestern.....	56	15	31	36

The effect of the large number of classification exceptions applying in the various rate territories is to lower the average level of the "applicable" ratings in terms of the average percent of first class. In Official Territory the average relation of the ratings to first class is reduced from 68.26 percent, in the classification proper, to 65.28 percent; in Southern Territory, from 68.14 to 62.37 percent; in Western Trunk-Line Territory, from 69.02 to 64.95 percent; and in Southwestern Territory, from 69.02 to 62.19 percent. It should be recognized that, although the average relation of the ratings to first-class is not reduced very greatly by the numerous exceptions ratings, there is undoubtedly a tendency for the exceptions ratings to be given most frequently on articles which have a substantial movement in a given territory.

D. Conclusions

The result of the classification exceptions is to make the average relative levels of applicable rates as follows:

Official.....	100
Southern.....	133
Western Trunk-Line	
Zone I.....	127
Zone II.....	145
Zone III.....	160
Zone IV.....	183
Southwestern.....	153

5/ No exceptions having general application throughout Mountain-Pacific Territory are published, but some agency and individual-line tariffs contain exceptions having limited territorial application.

If the relative levels of the rates, resulting from classification or exceptions ratings, are figured on carloads and less carloads separately, the following results are shown:

	Carload Class Rates	Less-Carload Class Rates
Official	100	100
Southern	141	128
Western Trunk-Line		
Zone I	126	128
Zone II	144	146
Zone III	159	161
Zone IV	181	184
Southwestern	141	161

The average relations of rates shown above represent the average relations of the class and exceptions ratings regardless of the volume of traffic moving thereunder. A weighted average would have more value for some purposes than an unweighted one. A weighted average, however, would eliminate entirely the rates which were so high as to prevent movement of traffic, and would weight the average heavily with the rates on articles moving in volume on favorable rates. An average of rates as published is better than such a weighted average for the purpose of indicating regional differences in rates.

It is apparent from the above that there are substantial differences in the levels of class rates in the different territories even after the exceptions to the classification are taken into consideration.

As might be expected, the differences in rate levels on particular commodity descriptions in the classification or exceptions are much greater than the average differences in levels. Although the lowest basis of class rates prevails in Official Territory, there are some commodity descriptions in each of the other territories, which, because of low classification or exceptions ratings, are actually on a lower mile-for-mile basis than applies in Official Territory. On the other hand, there are individual articles on which the rate levels in the other territories exceed the Official Territory level by more than the differences in first-class rates.

On a large number of commodity descriptions in the classification or exceptions, the ratings are uniform in percent of first class in two or more territories. For this reason the average relation of first-class rates in the two territories expresses the average relation of the rates on a substantial number of the commodity descriptions.

Tables I to VI summarize the number of commodity descriptions in each territory in which the rate levels are the same as, or higher or lower than, the levels in Official Territory.

TABLE I

Number of Commodity Descriptions on which Applicable Ratings, Classifications or Exceptions, in Southern Territory Indicate Higher or Lower Rate Levels than in Official Territory

	Carload	Less Carload	Any-Quantity	Total
Number of commodity descriptions on which Southern Level exceeds Northern Level by more than 39 percent 6/	4,315	295	9	4,619
Number on which Southern Level exceeds Northern Level by 39 percent	4,034	5,742	34	9,810
Number on which Southern Level exceeds Northern Level by less than 39 percent	1,717	3,005	19	4,741
Total number on which Southern Level exceeds Northern Level	10,066	9,042	62	19,170
Number on which Southern Level is the same as Northern Level	14	--	--	14
Number on which Southern Level is less than Northern Level	312	1,025	18	1,355
Total	10,392	10,067	80	20,539

6/ 39 percent represents the amount by which the first-class rates in the South exceed those in the North on the average, and expresses the difference in rate levels on commodities which are rated the same, in percent of first class, in both territories.

TABLE II

Number of Commodity Descriptions on which Applicable Ratings, Classifications or Exceptions, in Western Trunk-Line Territory, Zone I, Indicate Higher or Lower Rate Levels than in Official Territory

	Carload	Less Carload	Any-Quantity	Total
Number of commodity descriptions on which Western Trunk-Line Zone-I Level exceeds Official Level by more than 28 percent 7/	3,951	1,445	19	5,415
Number on which Western Trunk-Line Zone-I Level exceeds Official Level by 28 percent	1,294	7,864	52	9,210
Number on which Western Trunk-Line Zone-I Level exceeds Official Level by less than 28 percent	4,321	528	4	4,853
Total number on which Western Trunk-Line Zone-I Level exceeds Official Level	9,566	9,837	75	19,478
Number on which Western Trunk-Line Zone-I Level is the same as Official Level	52	--	--	52
Number on which Western Trunk-Line Zone-I Level is less than Official Level	774	230	5	1,009
Total	10,392	10,067	80	20,539

7/ 28 percent represents the amount by which the first-class rates in Western Trunk-Line Zone I exceed those in Official Territory on the average, and expresses the difference in rate levels on commodities which are rated the same, in percent of first class, in both territories.

TABLE III

Number of Commodity Descriptions on which Applicable Ratings, Classifications or Exceptions, in Western Trunk-Line Zone-II Territory Indicate Higher or Lower Rate Levels than in Official Territory

	Carload	Less Carload	Any-Quantity	Total
Number of commodity descriptions on which Western Trunk-Line Zone-II Level exceeds Official Level by more than 46 percent 8/	3,941	1,445	19	5,405
Number on which Western Trunk-Line Zone-II Level exceeds Official Level by 46 percent	1,294	7,864	52	9,210
Number on which Western Trunk-Line Zone-II Level exceeds Official Level by less than 46 percent	4,771	666	6	5,443
Total number on which Western Trunk-Line Zone-II Level exceeds Official Level	10,006	9,975	77	20,058
Number on which Western Trunk-Line Zone-II Level is the same as Official Level	14	--	--	14
Number on which Western Trunk-Line Zone-II Level is less than Official Level	372	92	3	467
Total	10,392	10,067	80	20,539

8/ 46 percent represents the amount by which the first-class rates in Western Trunk-Line Zone-II exceed those in Official Territory on the average, and expresses the difference in rate levels on commodities which are rated the same, in percent of first class, in both territories.

TABLE IV

Number of Commodity Descriptions on which Applicable Ratings, Classifications or Exceptions, in Western Trunk-Line Zone-III Territory Indicate Higher or Lower Rate Levels than in Official Territory

	Carload	Less Carload	Any-Quantity	Total
Number of commodity descriptions on which Western Trunk-Line Zone-III Level exceeds Official Level by more than 61 percent 9/	3,949	1,445	19	5,413
Number on which Western Trunk-Line Zone-III Level exceeds Official Level by 61 percent	1,294	7,864	52	9,210
Number on which Western Trunk-Line Zone-III Level exceeds Official Level by less than 61 percent	4,959	719	8	5,686
Total number on which Western Trunk-Line Zone-III Level exceeds Official Level	10,202	10,028	79	20,309
Number on which Western Trunk-Line Zone-III Level is the same as Official Level	5	--	--	5
Number on which Western Trunk-Line Zone-III Level is less than Official Level	185	39	1	225
Total	10,392	10,067	80	20,539

9/ 61 percent represents the amount by which the first-class rates in Western Trunk-Line Zone III exceed those in Official Territory on the average, and expresses the difference in rate levels on commodities which are rated the same, in percent of first class, in both territories.

TABLE V

Number of Commodity Descriptions on which Applicable Ratings, Classifications or Exceptions, in Western Trunk-Line Zone-IV Territory Indicate Higher or Lower Rate Levels than in Official Territory

	Carload	Less Carload	Any-Quantity	Total
Number of commodity descriptions on which Western Trunk-Line Zone-IV Level exceeds Official Level by more than 84 percent 10/	3,948	1,445	19	5,412
Number on which Western Trunk-Line Zone-IV Level exceeds Official Level by 84 percent	1,294	7,864	52	9,210
Number on which Western Trunk-Line Zone-IV Level exceeds Official Level by less than 84 percent	5,053	737	9	5,799
Total number on which Western Trunk-Line Zone-IV Level exceeds Official Level	10,295	10,046	80	20,421
Number on which Western Trunk-Line Zone-IV Level is the same as Official Level	6	--	--	6
Number on which Western Trunk-Line Zone-IV Level is less than Official Level	91	21	--	112
Total	10,392	10,067	80	20,539

10/ 84 percent represents the amount by which the first-class rates in Western Trunk-Line Zone-IV exceed those in Official Territory on the average, and expresses the difference in rate levels on commodities which are rated the same, in percent of first class. in both territories.

TABLE VI

Number of Commodity Descriptions on which Applicable Ratings, Classifications or Exceptions, in Southwestern Territory Indicate Higher or Lower Rate Levels than in Official Territory

	Carload	Less Carload	Any-Quantity	Total
Number of commodity descriptions on which Southwestern Level exceeds Official Level by more than 61 percent 11/	3,949	1,372	14	5,335
Number on which Southwestern Level exceeds Official Level by 61 percent	1,294	5,950	49	7,293
Number on which Southwestern Level exceeds Official Level by less than 61 percent	4,959	2,692	14	7,665
Total number on which Southwestern Level exceeds Official Level	10,202	10,014	77	20,293
Number on which Southwestern Level is the same as Official Level	5	--	--	5
Number on which Southwestern Level is less than Official Level	185	53	3	241
Total	10,392	10,067	80	20,539

11/ 61 percent represents the amount by which the first-class rates in Southwestern Territory exceed those in Official Territory on the average, and expresses the difference in rate levels on commodities which are rated the same, in percent of first class, in both territories.

The comparisons shown in Tables I to VI do not take into consideration commodity rates that exist on various articles. Levels of commodity rates on commodities which generally move on commodity rates rather than on class rates are discussed in the following section. There are frequently, however, point-to-point commodity rates which apply on articles which would normally be charged class rates. Such commodity rates are usually of limited territorial application, but they may cover the most important movements of certain articles.

In comparing levels of class rates in the various territories, it should be kept in mind that class rates in Official Territory have been designed to move much more traffic than in the other territories. In Southern and Western territories commodity rates are more freely given on commodities that move in substantial volume.

III

COMMODITY-RATE LEVELS

Commodity rates are of three types. First, there are commodity rates which are tied to the class rates, usually by being made a certain percent of first-class rates or of some class other than first. When published as a percent of first class these rates are commonly known as "column rates." A second kind of commodity rates is composed of those which are built upon some systematic basis not related to the class rates but constituting a rate structure by themselves. These may be constructed according to a distance scale, on a group basis, or on some other basis. Such rate structures are commonly characterized by one or more base rates and a system of differentials. The third type of commodity rate consists of special point-to-point rates built upon no systematic basis but adjusted to meet the needs of some particular shippers or communities or to meet some competitive condition.

Because commodity rates are constructed on so many different bases and levels and are of varying importance, it is virtually impossible to generalize about their levels. Comparisons of regional differences in commodity-rate levels, however, can be made on particular commodities. The Board is making an analysis of carload traffic which moved on twelve sample days in 1939, from which average levels of this sort may be computed, and from which data can be obtained to indicate the relative importance of commodity rates and class rates on carload traffic.

A comparison has been made of the levels of rates in the various rate territories on a limited number of commodities which move wholly or partly on commodity rates. These analyses show that on most of the commodities studied there are substantial regional differences in the levels, with higher rates in the South and West than in Eastern Territory. In most instances, however, the relative differences are less than the differences in first-class rates in the same territories. On a few commodities the rate levels in the South are lower than in Official Territory. This, for instance, was found to be true of brick and clay products, fertilizer and fertilizer materials, and lime.

In a few instances Western Trunk-Line or Southwestern levels are lower than Official Territory levels. Rates on common brick are lower in Southwestern Territory than in Eastern Territory. Various log scales used in the Southwest, and also in Mountain-Pacific Territory, are among the lowest found anywhere in the United States. Rates on pulp wood are also on a very low basis in certain parts of Southwestern Territory. Scrap iron, subject to a carload minimum of 75,000 pounds, has lower rate levels in Zones I and II of Western Trunk-Line Territory than in Eastern Territory.

On many commodities there are differences in levels within a major territory. On logs and on pulp wood, for instance, there are many levels in some territories, since numerous and different individual-line scales

are maintained by the carriers. On some commodities there are different levels in two, or in all three, of the subdivisions of Official Territory. This is true, for instance, of brick, cement, fertilizer and fertilizer materials, and lime.

IV

AVERAGE RATE LEVELS

The average rate level in each territory, that is, what the railroads receive on the average for performing a given amount of transportation service, is of some significance in determining the practicability of a uniform level of rates. If the average revenue received by the railroads for transporting a ton of freight one mile is the same in two territories, but wide differences exist in the levels of rates on particular commodities or services, it would seem that a readjustment of rates, putting them on a common level, would not seriously affect the revenues of the railroads in either territory. Such a conclusion, however, cannot be accepted without considerable qualification. Such a change in the rate structure would raise some rates and lower others in each territory. The higher rates on articles now charged low rates might reduce the volume of traffic transported, and reductions in rates on other articles might increase the volume transported. There is no assurance that the gains and losses would offset each other. There may well be situations in which the traffic will not stand as high a rate level on a particular commodity in one territory as in another. This would be particularly true of the lower-grade commodities generally moving on commodity rates. Notwithstanding this important limitation it is probably true that the closer the average rate level in two territories the easier would be the task of unifying the rate structure.

No very adequate measure of the average rate level is available. Figures showing revenue per ton-mile are usually used for this purpose. Since rates are normally less per mile for long hauls than for shorter ones, the average revenue per ton-mile is less for long hauls than for short ones. This characteristic of revenue-per-ton-mile figures limits their usefulness, since they must be accompanied by statements of differences in the average hauls before comparisons can be made, and even then it is difficult to know how much allowance should be made for these differences.

The average revenues per ton-mile received by the railroads in the Eastern District, Pocahontas Region, Southern Region, and Western District,12/ for the years 1930 to 1941, are shown in Table VII.

12/ Where the words "Region" or "District" are capitalized in this report the regions or districts are as defined by the Interstate Commerce Commission for statistical purposes in Statistics of Railways.

TABLE VII

Average Revenue per Ton-Mile, Class-I Line-Haul Railroads, by Regions or Districts, 1930-1941

Year	Eastern District	Pocahontas Region	Southern Region	Western District
	(mills)	(mills)	(mills)	(mills)
1930	10.80	6.40	10.82	11.49
1931	10.63	6.38	11.04	11.36
1932	10.61	6.35	10.89	11.45
1933	10.16	6.27	10.72	10.77
1934	9.98	6.17	10.43	10.50
1935	10.22	6.41	10.29	10.41
1936	10.16	6.41	10.02	10.17
1937	9.70	6.14	9.59	9.79
1938	10.08	6.46	10.13	10.40
1939	10.07	6.42	10.01	10.21
1940	9.94	6.31	9.54	9.82
1941	9.89	6.44	9.46	9.46
Average	10.19	6.36	10.25	10.49

Until recent years the Southern Region has generally had higher revenues per ton-mile than the Eastern District; and the Western District has had still higher revenues per ton-mile. The figures therefore suggest a higher average rate level in the South than in the East, and a still higher level in the West. This conclusion is further substantiated by the fact that the average haul is presumably longer in the South than in the East, and still longer in the West.13/ Since the hauls are longer in the South than in the East, and the average revenues per ton-mile are practically the same, the Southern rate level must be somewhat higher than the Eastern. This conclusion follows because, if the rate levels and consist of the traffic were the same, the longer average haul in the South would produce a lower average revenue per ton-mile. The hauls are still longer in the West. Under the same rate level as prevails in the East, lower revenues per ton-mile would be produced in the West than in the East. Since the average revenue per ton-mile has been higher in the West than in the East, except for the years 1940 and 1941, it follows that the average rate level in the West has been, and probably is, higher than in the East. These figures relate to the West as a whole, and give no indication of differences in levels in Western Trunk-Line Southwestern, and Mountain-Pacific territories, respectively.

The above conclusions as to differences in average rate levels may be accepted as correct, but we are still left with no precise measure of the differences. A recent calculation made by the Bureau of Transport Economics and Statistics of the Interstate Commerce Commission in connection with the Class Rate Investigation shows the Comparative average rate levels as follows:

13/ The Bureau of Transport Economics and Statistics of the Interstate Commerce Commission has recently estimated that the average haul per shipment in 1939 was 252 miles in the Eastern District, 282 miles in the Southern Region, and 345 miles in the Western District.

Eastern District	100.
Southern Region	105.5
Western District	116.6

The Bureau believes that the above figures overstate the Southern Region level, and concludes that the average rate level in the South is between 3 percent and 5 percent over the Eastern level.14/

The differences in average rate levels are less than the differences in the levels of first-class rates, and less than the differences in the average levels of class rates after taking into consideration differences in classification and exceptions ratings. They suggest that the higher rate levels in the South and West on many commodities must be partly offset by low rates on other commodities. They also suggest that any attempt to unify the rate structure as a whole on the basis of Eastern or Southern levels might create a revenue problem for the Western railroads. Although the Western carriers, as a whole, apparently need a higher average rate level than the Eastern roads, some commodities, particularly those moving long distances, may require lower rate levels in the West.

14/ See exhibit of Ford K. Edwards in Docket 28300, entitled Unit Costs for the Eastern Territory, etc., Table 3, also Statement of Ford K. Edwards in reply to the criticisms of exhibits introduced by him, p. 51. The method used was to compare the actual freight revenues, by I.C.C. commodity groups, received by the railroads in the South and West in 1939, with what they would have received if the Eastern level of rates, as measured by average revenue per ton-mile by commodity groups adjusted for the differences in average hauls, had prevailed in the South and West. Because of the limitations of the data and of the statistical methods used, the resulting measure of differences in average rate levels cannot be taken as conclusive.

V

THE STRUCTURE OF INTERTERRITORIAL RATES

The structure of interterritorial class rates is complex. The method of constructing class rates between the various rate territories is described in the main body of the report. In general, the principle running through the adjustments is that of obtaining a blend of the different intraterritorial class-rate levels, i. e., the rates are usually higher than would result from applying the scale of the lower-rated territory for the full distance, and lower than would result from applying the scale of the higher-rated territory for the full distance.

In the blending of the intraterritorial levels, however, there is a tendency for the interterritorial rates to be closer to the level of the higher-rated territory than to the level of the lower-rated territory, even when a comparatively small portion of the haul occurs in the higher-rated territory.

The interterritorial commodity rates are on so many different bases that it is impossible to generalize concerning them other than to state that they are constructed on no consistent basis. In some instances the interterritorial commodity rates are on the basis of the full combination of rates to and from border points. In other cases they are combinations of proportionals,15/ or of locals and proportionals. In a few instances distance scales of rates are applied interterritorially.

So far as the relationships of interterritorial and intraterritorial levels of commodity rates are concerned, no consistent principle is observed. Sometimes interterritorial commodity rates are on the basis of the level within the higher-rated territory; in other instances, on the level of the lower-rated territory; sometimes they are on a basis which blends the two levels; and sometimes they are higher than the level in either territory. In some instances interterritorial commodity rates are tied to the interterritorial class rates by being made a definite percent of the first-class rates. Sometimes commodity rates from points in one territory to points in another are higher or lower than in the reverse direction, and reflect the "destination-level" theory of interterritorial rates which has been strongly urged upon the Commission from time to time by some interests.

The most logical basis for constructing interterritorial rates between two territories having different levels is the blended basis. A blended basis should normally reflect the respective levels of the rates in the two territories in proportion to the length of the haul in each. This basis is sometimes difficult to carry out in practice because of the computations involved.

15/ Proportional rates are rates between two points which apply only on traffic coming from or destined to points beyond.

Any blended basis of constructing interterritorial rates assumes the propriety of the intraterritorial levels. A blended basis is objectionable if there is no justification for the differences in intraterritorial levels.

VI

ECONOMIC EFFECTS OF DIFFERENCES IN RATE LEVELS AND OF INTERTERRITORIAL RATE STRUCTURES

Critics of the interterritorial freight rates are inclined to ascribe the dominant place held by Official Territory in manufacturing to the favorable rates on manufactured articles in that area. They are also inclined to attribute the lesser industrial development of the South and West to the less favorable rate structure. The factors explaining the differences in industrial activity in different parts of the United States are numerous and complex, some of them having their roots in the early history of the regions, and it is an oversimplified explanation to say that the cause is wholly, or even largely, differences in the levels of freight rates.

Defenders of the present regional rate levels, and of the present structure of interterritorial rates, point to the progress made in recent years by industry in the South and West as proof that the freight rates have not retarded industrial development. But industrial development of these regions may have occurred in spite of rate disadvantages, and a more rapid development of the regions might have taken place under a different rate structure.

It is frequently contended, and with some truth, that regional differences in freight rates are the result, and not the cause, of differences in the economic activity in the different rate territories. That railroads in any region should make freight rates favorable to the principal industrial and other groups located in that area is to be expected. It results partially from the fact that the organized economic interests of an area make their needs known to the railroads, and can exert considerable pressure to obtain favorable freight rate adjustments. The interests of the railroads in a given area, furthermore, are often best served by making such adjustments in freight rates as may be necessary to enable producers in that area to obtain as wide a distribution of their products as possible. The comparatively low rates on manufactured articles in Official Territory are probably due in part to the interest of northern railroads in fostering the industries which, for various reasons, happen to be located in that area. Higher rates on manufactured articles in the South and West can be explained partly by the lack of interest of those areas in manufacturing in the past; and the low rates on certain other commodities in the South and West reflect the long-standing interest of those areas in the production of these commodities. The result of the situation described is that the freight-rate structure tends to perpetuate the particular regional specialization which has existed in an area. Newer economic interests in an area must frequently make their way against rate handicaps growing out of the prevailing rate adjustments.

Although the freight rate structure tends to retard changes in industrial location and in existing regional economic activity, it is

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easy to overestimate its importance, both in explaining existing specialization and in predicting the consequences of a removal of existing inequalities in rate levels. Some perspective on the whole matter can be obtained by a review of the influence of freight rates, along with other factors, in explaining the location of manufacturing industries, or other forms of economic activity.

There are many kinds of economic activity which are not affected by freight rates at all, or only indirectly in that they follow population, wealth, or some particular forms of industrial activity which may be affected by freight rates. The lines of activity, as classified by the United States census, which seem to be in this category are transportation, communication, and other public utilities; retail trade; construction; finance, insurance, and real estate; business and repair service; personal service; amusement, recreation, and related services; professional and related services; and government. The persons employed in these forms of activity comprised nearly 52 percent of the persons employed in the United States, in 1940. These groups are affected by freight rates only in the sense that freight rates may affect the industrial or other economic activity of a particular area, and hence the size of the population which the area will support, and its income.

Extractive industries, like mining, agriculture, and lumbering can be carried on only where the resources to be exploited exist. Freight rates are frequently very important, however, in determining the extent to which such resources can be exploited. It is characteristic of these industries to seek as low freight rates on their products as possible in order to attain as wide markets as possible. These low rates frequently create a situation favorable for shipping the products to distant markets rather than for processing them near the sources of supply.

The importance of freight rates on the location of manufacturing industries varies greatly depending on the industry. In this connection, it is helpful to recognize four distinct groups of industries. The first group consists of industries which tend to be located near one or more of the raw materials which they use, or fuel. The reasons why some industries are drawn to the sources of raw materials differ with different industries, but perhaps the one operating most frequently is the weight-losing character of the raw materials used. There is a considerable loss of weight in converting many raw materials into finished or semi-finished goods, particularly in the first processing. When this situation exists there is ordinarily a substantial saving in transportation costs if the processing occurs close to the source of the materials, thus eliminating the shipment of waste.

Where the forces drawing an industry to its raw materials are strong, no change in freight rates will pull the industry away from the sources of materials. It should be noted, however, that the extent to which raw materials of this nature can be exploited in a given region may depend upon favorable freight rates on the finished products.

A second group of industries consists of those which, for one reason or another, are almost always found close to their markets. The forces operating to draw industries to their markets vary in different industries. Industries which produce a highly perishable product are in this class. Industries which use a great many raw materials from many different sources of supply, and also industries which make use of raw materials, one or more of which are found nearly everywhere, are industries which are drawn to their markets. Such industries are not likely to be drawn to other locations by changes in freight rates. These industries tend to develop as the market for their products develops, and are only indirectly affected by changes in freight rates.

A third class of industries consists of those which are drawn towards raw materials, or toward markets for finished products, depending on the relation between the rates on raw materials and on finished products. If rates on raw materials are low relative to the rates on finished products these industries tend to locate near the markets for their products, but if the rates on raw materials are high relative to the rates on the finished product they tend to locate near the source of their raw materials. These industries are the ones which are most affected by rate changes and which may be induced to locate in one region or another by manipulation of freight rates. It should be noted, however, that the factor affecting the location of these industries is not the level of rates but the relationship of rates on raw materials and finished products. The meat-packing industry and the milling industry, for example, are both sensitive to rate relationships of this nature. Since rate relationships and not general rate levels influence the location of industries of this class, any effect of equalizing rate levels in the different parts of the country on such industries can only be determined by considering how, in particular instances, the relationship between rates on raw materials and finished products would be affected.

A conflict of interest often appears within a region when the location of processing in the areas producing raw materials is dependent upon the relation between the raw material and finished products rates. The interest of the raw material producers in having low rates on raw materials, in order to obtain as wide a market as possible for their products, may come into conflict with the interest of processors desiring low rates on finished products and comparatively high rates on raw materials.

The fourth class of industries consists of those the location of which is determined by circumstances unrelated to transportation, such as electric power costs, labor costs, or a skilled labor supply. In some instances these locational factors are of so great importance that freight rates exert no influence at all on the location of the industry. In other instances advantages of this sort must be weighed against freight-rate disadvantages. In the latter case differences in freight-rate levels may be an important factor in determining location. Unfavorable freight rates may, in some instances, prevent the location of such industries in otherwise advantageous locations; and on the other

hand, especially favorable rates may foster their development in an otherwise unfavorable location.

The preceding analysis of industries according to the factors which affect their location indicates that the locational pattern of the manufacturing industries of the country would be affected only to a limited extent by the equalization of freight rate levels, particularly the levels of class rates.

The foregoing conclusion, however, does not warrant the dismissal of the interterritorial freight rate problem as unimportant and therefore not worth serious attention. If it is conceded that the rate structure has some effect on the location of industries, and on the economic development of particular areas, then it is important that unjustifiable differences in rate levels, or interterritorial rates which cannot be logically justified, should be corrected.

The rate structure should not ordinarily be manipulated to favor the location of industries in any particular region or locality, or to prevent their location in other areas, or to foster centralization or decentralization of industry. The rate structure should place no obstacles in the way of locating industries where production costs, including transportation costs, are lowest, or where for other reasons it is advantageous to locate an industry. A rate structure that is adjusted to transportation costs serves this purpose best. If this results in concentration of industries in certain areas such concentration has a sound economic basis; if it results in a scattering and decentralization of industries, that too rests upon a sound economic foundation.

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VII

REGIONAL DIFFERENCES IN TRANSPORTATION COSTS

Less favorable transportation conditions and higher operating costs have been frequently cited by the Interstate Commerce Commission in the past as justifying higher levels of rates in the South and West than in the East. Among the less favorable transportation conditions tending to cause higher costs in the South and West the lighter traffic density has received the most frequent mention. A comparatively recent case, however, -- State of Alabama v. New York Central Railroad Co., 235 I.C.C. 255 (1939) -- may be interpreted as indicating that the Commission now questions the assumption that railroad costs are higher in Southern than in Eastern Territory.

A study made by the Bureau of Statistics of the Interstate Commerce Commission in 1930 indicated that railroad carload freight costs were slightly lower in the Southern Region than in the Eastern District, but higher in the Western District. The study also showed substantially higher costs in New England than in the rest of Eastern Territory.16/

A somewhat more elaborate study was made by the Bureau of Statistics in 1938.17/ This confirmed the general conclusions of the previous study, and in addition, showed that the lowest transportation costs were in the Pocahontas Region.

The most recent and most elaborate attempt to determine regional differences in cost is the study prepared by Dr. Edwards of the Bureau of Transport Economics and Statistics of the Interstate Commerce Commission in connection with Docket 28,300, Class Rate Investigation, 1939. The Edwards cost study, and certain supplementary material relating thereto, have been introduced as exhibits in that proceeding.18/

The Edwards cost study shows absolute and relative costs of various freight services under assumed conditions in the various territories in 1939.

Relative costs of transporting freight in the different territories in various types of equipment, as indicated by the Bureau's study, are shown in Tables VIII and IX.

16/ Statement No. 3018, Territorial Variation in the Cost of Carload Freight Service on Steam Railways in the United States for the Year 1928.

17/ Statement No. 3812, Territorial Variation in the Cost of Carload Freight Service on Class-I Steam Railways in the United States for the Calendar Year 1936.

18/ See particularly the exhibits of Dr. Edwards entitled: Railroad Freight Service Costs in the Various Rate Territories, 1939; Railway Freight Service Costs for the Year 1939; Relative Territorial Costs 1939 and 1941, Analyses of Switching Costs and Other Data. Territorial Rail Costs Based on a Separation of the Out-of-Pocket and Constant Expenses, 1939; Territorial Unit Costs for Railroad Freight Service, 1939; Unit Costs for the Eastern Territory Including and Excluding the Pocahontas Territory and the State of Kentucky, etc.; and also Statement of Ford K. Edwards in reply to the criticisms of exhibits introduced by him.

TABLE VIII

Relative Full Distributed Costs of Carload Traffic by Classes of Equipment Based on Assumed Identical Load, Haul of 300 Miles, in Principal Territories, 1939.19/

	(U. S. average = 100)			
	Eastern	Pocahontas	Southern	Western
Box Car Traffic	101	67	96	109
Gondola and Hopper Car Traffic	101	63	99	110
Stock Car Traffic	107	86	98	102
Refrigerator Car Traffic	105	73	100	102
Tank Car Traffic	102	67	99	109
Flat Car Traffic	105	64	99	108

19/ Taken from copy of working papers used in computing the territorial cost comparisons appearing on pages 3 and 4 of the prepared statement of Ford K. Edwards, dated February 1943, circulated by the Commission. Assumed loads were as follows: box cars, 25 tons; gondola and hopper cars, 50 tons; stock cars, 11 tons; refrigerator cars, 14 tons; tank cars, 30 tons; and flat cars, 29 tons.

TABLE IX

Relative Full Distributed Costs of Carload Traffic by Classes of Equipment Based on Actual Average Load, Haul of 300 Miles, in Principal Territories, 1939.20/

	(U. S. average = 100)			
	Eastern	Pocahontas	Southern	Western
Box Car Traffic	102	68	97	108
Gondola and Hopper Car Traffic	100	63	102	115
Stock Car Traffic	106	86	97	102
Refrigerator Car Traffic	105	74	102	102
Tank Car Traffic	101	67	99	109
Flat Car Traffic	113	68	100	107

20/ Source same as Table VIII. Average loads, in tons, as follows:

Type of Car	Eastern	Southern	Pocahontas	Western
Box	25.6	25.2	25.4	26.2
Gondola & Hopper	50.4	46.0	50.2	43.0
Flat	25.0	27.7	26.4	29.0
Stock	11.1	10.7	11.0	11.0
Refrigerator	14.8	14.4	14.8	15.0
Tank	29.7	29.6	29.6	29.1

An average of these costs, based on an assumed identical load, weighted according to the revenue ton-miles handled in the various classes of equipment for the United States as a whole, is given by Dr. Edwards as follows:21/

East, including New England	102
Pocahontas	67
South	98
West	108

On the basis of actual average loads in each territory the relative costs are shown by Edwards as:

East, including New England	101
Pocahontas	67
South	99
West	110

21/ Statement of Ford K. Edwards in reply to the criticisms of exhibits introduced by him, p. 4.

The relatives shown above are constructed with the United States average as 100. If a comparison of the Southern and Western costs is made directly with Eastern Territory costs, the full distributed costs, based on identical assumed loads, in the South are shown by the Edwards study as approximately 4 percent below Eastern costs, and the Western costs as 6 percent above Eastern costs. If the comparison is based on the actual average loads, the Southern costs are shown as about 2 percent below Eastern costs, and Western costs about 9 percent higher than Eastern costs.

The relative costs shown above are costs of carload traffic. The relative costs of less-carload traffic in the various rate territories are shown below, computed on the basis of an assumed load of 5 tons, in box cars, in each territory, and also on the basis of the actual average loads.

TABLE X

Relative Full Distributed Costs of Less-Carload Traffic, in Principal Rate Territories, 1939.22/

	Load of 5 Tons, in Box Cars	Actual Average Load 23/
United States	100	100
New England	109	112
Eastern, excluding New England and Northern Illinois	101	92
Pocahontas	89	87
Southern	88	87
Western	110	122

22/ Computed from data in Exhibit 13, Territorial Unit Costs for Railroad Freight Service, 1939, filed in I.C.C. Docket 28300.

23/ Average loads: United States, 5.4 tons; New England, 5.1 tons; Eastern, 6.5 tons; Pocahontas, 5.6 tons; Southern, 5.5 tons; Western, 4.3 tons.

The relative costs of various freight services as shown for the various territories depend upon the grouping of carriers used. Costs in New England are very much above the United States average, and also above the average for the rest of Eastern District. The inclusion of New England with the rest of Eastern Territory tends to raise the Eastern average, but only slightly. Transportation costs on the Pocahontas lines are so low that if they are grouped with the Eastern roads the Eastern costs are reduced below the United States average. If they are grouped with the Southern lines, the Southern average is reduced further below the United States average.

Since the terminal costs in the South are lower than in the East, but Southern line-haul costs are higher than in the East, it follows that the advantage of the South is greatest on short hauls and diminishes as the length of the haul increases.

The Edwards cost study has been severely criticized. It is subject, of course, to the limitations of any cost analysis that involves the allocation of expenses that are incurred in common for different services. Many of the criticisms made of the Edwards study relate to details of apportionment, and to the statistical information on which

they are based, but improvement in these details would probably not affect greatly the relative cost figures. It should be emphasized that it is relative cost, rather than the absolute cost, that is of interest in any appraisal of the justification of differences in rate levels. The important thing, for the purposes of this study, is to know the extent to which regional differences in transportation costs exist, rather than to determine the adequacy or inadequacy of any computation of average costs as a basis for the prescription of class-rate scales.

The most serious criticism of the Edwards cost study, and one which might, if valid, affect the showing of relative costs, is that the costs obtained by the formula are average costs of transporting all kinds of freight; and that they do not, therefore, take into consideration differences in the composition of traffic. It is contended, therefore, that the costs found represent an average of unlike things.

It must be conceded that there are differences in the kinds of commodities or in the relative quantities of various kinds of commodities transported in the different territories. The Edwards study recognizes the importance of differences in composition of traffic, and distinguishes between the kinds of traffic carried on the basis of the classes of equipment in which it ordinarily moves. As pointed out previously, separate calculations were made of the cost of handling traffic in the various types of equipment. This procedure is about as far as one can practicably go in distinguishing between the different kinds of commodities carried. It is about as far as one needs to go because the cost of transporting one commodity in box cars should not differ very much from that of transporting another commodity in the same type of equipment, except as their average loading, loss and damage claims, and special service requirements may differ. The same is true of commodities transported in refrigerator cars, or in any other types of equipment. Carloads, tons, car-miles, and ton-miles, are the more important units from a cost-of-service standpoint, and most expenses are not affected by the nature of the commodity in a car of a particular type, or by the particular commodity constituting a ton. Differences in composition of traffic, insofar as they affect average car loading, are reflected in average loads in the different regions for the various classes of equipment. If differences in composition of traffic are so great as to make possible a greater use of heavy-tonnage trains in one terrigory than in another differences in average cost will likely appear. The heavy coal trains in the Pocahontas Region explain in large part the low average costs found in that region. Considering the comparatively small differences in the proportion of tonnage in the various territories, Pocahontas Region excepted, which is moved consistently in heavy-tonnage trains, it does seem probable that lower costs arising from the use of such trains can seriously affect the validity of Edwards' figures on comparative costs.

There has been some hesitancy about accepting the findings of the Edwards cost study because of the difficulty of reconciling the figures with the rather poor financial showing which has been made by the Southern and Western railroads. It is argued that, with higher rate

levels in the South than in the East, the Southern railroads should have shown larger earnings on investment than the Eastern roads, if their costs are, in fact, lower. In considering this argument, it should be pointed out that the average level of rates in the South is estimated to be only about 5 percent above the Eastern level. Analysis also shows that the Southern railroads have earned more on their investment than the Eastern railroads in recent years -- 1937, 1938, 1939, and 1941 -- and that had it not been for the relatively larger passenger deficits in the South, the Southern roads would have made an even better financial showing.

It is somewhat more difficult to reconcile the Edwards cost figures respecting Western Territory with the higher rate level and lower rates of return earned by the Western railroads. The cost study shows costs to be from 6 to 9 percent above Eastern costs, whereas the average rate level has been estimated to be between 16 and 17 percent higher than the Eastern level.24/ Notwithstanding this situation the Western railroads have earned a smaller rate of return on investment than the Eastern or Southern roads. The passenger deficits in the West, however, have been relatively greater than those in the East or South. It should also be noted that the "book investment' figures of the Western railroads are somewhat higher in relation to Bureau of Valuation's estimates of original cost less depreciation, or cost of reproduction less depreciation, as of January 1, 1940, than is true of the roads in the Eastern District and Southern Region. If the earnings of the railroads in Eastern District, Southern Region, and Western District from 1936 to 1941 are computed as what they would have been if there had been no passenger deficits, and are expressed as a return on book investment adjusted to either an original-cost-less-depreciation basis, or to a cost-of-reproduction-less-depreciation, basis, the earnings of the Western roads compare very favorably with those of the Eastern and Southern roads. It should also be pointed out that the freight operating ratios of the Western roads compare favorably with those of the Eastern roads, and so do the ratios of freight operating expenses, rents, and taxes, to freight operating revenues.

The general observation should be made that the regional differences in railroad freight service costs are small compared with differences in the costs of individual railroads within a region. It is also noticeable that high-cost and low-cost roads within a region tend to be the smaller railroads, whereas the costs of the larger railroads vary less from the regional averages, and vary less among themselves. The probable explanation of this situation is in the fact that the operations of a large railroad include both high-cost and low-cost lines. A system average cost is an average of unlike transportation costs occurring on different parts of the system.

Certain facts brought out in the various cost studies of the Commission's Bureau of Statistics which are of significance in an analysis of the interterritorial rate problem may be summarized as follows:

24/ This estimate of the average rate level must be taken with reservations owing to the limitations of the data and of statistical methods used. See p. 17, footnote 14.

First, the cost studies indicate that the regional differences in freight service costs are not large. Although the conclusions of these studies should be recognized as approximations and subject to further refinement, and not as precise measures of differences in cost, they indicate that freight service costs are slightly lower in the South than in the East, and somewhat higher in the West as a whole than in the East. They indicate also that transportation costs are considerably higher in New England than the United States average; and that in the Pocahontas Region they are very considerably below the United States average.

Second, because of variations in traffic and transportation conditions within a rate territory, the regional average costs depend to some extent upon the inclusion and exclusion of particular areas in the territory under consideration.

Third, variations in cost among individual railroads within a region are greater than variations in regional average costs. With the exception of Pocahontas Territory there are high-cost roads and low-cost roads in all major territories.

Fourth, it is apparent from an examination of individual railroad cost data, that the individual railroad costs of the larger railroads are average costs of both favorable and unfavorable transportation conditions prevailing on different parts of the system.

VIII

REGIONAL DIFFERENCES IN THE DISTRIBUTION OF THE TRANSPORTATION BURDEN

Defense of higher levels of rates in the South and West has not rested wholly on allegations of higher transportation costs. Differences in the "distribution of the transportation burden" have been pointed out in explanation of the higher levels of class rates prevailing in both territories.

The term "distribution of the transportation burden" has been used in different senses but, as used in this report, it refers to differences in policy of the carriers in making some commodities or classes of traffic contribute more or less than others to general or overhead expenses. The Interstate Commerce Commission has frequently recognized that differences in rate levels on classes or commodities in the different territories are to be explained in terms of the "distribution of the transportation burden."

One of the principal differences in rate policy in the major territories is that in Eastern Territory there has been a tendency to provide favorable rates on manufactured articles because of the interest of that area in manufacturing, while in the West and South low rates have been made on certain low-grade products which have been important in the economy of those sections. In both the West and South, however, favorable rates have been provided on the products of certain manufacturing industries located in those areas.

To assert that the transportation burden is differently distributed in the different rate territories, and to point out the historical reasons which may explain this, is not to justify the differences. Whether such differences are or are not justified must depend on a consideration of their necessity or desirability.

The alleged necessity of continuing a different distribution of the transportation burden in the different rate territories rests upon two closely related considerations. The first is the difference in the composition of traffic in the different territories. The contention is that the railroads in Eastern Territory have a large proportion of high-grade well-paying traffic, particularly manufactured articles, whereas the Southern and Western railroads have a small proportion of traffic of this type, but a large proportion of low-grade products. It is contended that this situation requires that the Southern and Western railroads derive more revenue, relatively, from the high-grade traffic. The second consideration, often unconsciously combined with the first, which is alleged to require high rates on the higher-grade commodities in the South and West, is the relative sparsity of the traffic, or the lighter traffic density. The thought is that this situation compels the railroads in the South and West to give greater weight to "value-of-service" considerations than do the railroads in Official Territory, in order to raise necessary revenues.

Railroads in two regions might have the same average transportation costs, but the same level of class and commodity rates might produce quite different earnings in the two regions because of differences in the composition of traffic. The railroads in the region having the larger proportion of high-grade traffic would have the larger earnings, unless the rates on all commodities corresponded to the costs of transporting them. It follows that a higher rate level in one territory than in another may be necessary to support the railroads in that region, even if average transportation costs are identical.

This truth, however, should not lead to the unwarranted assumption that a railroad, or a region, having a large proportion of its traffic consisting of low-grade commodities must therefore charge higher rates on the high-grade traffic in order to obtain sufficient revenues. This can be easily seen from the fact that some very prosperous railroads have a large proportion of their traffic consisting of low-grade traffic. The Pocahontas roads, with approximately 85 percent of their traffic consisting of products of mines, which yield them revenues of less than 6 mills per ton-mile, are among the most prosperous railroads of the country. This should amply demonstrate that low-grade traffic can make a railroad prosperous provided there is enough of it. No one contends that the Pocahontas lines must, because only 10 percent of their traffic consists of articles in the manufactures and miscellaneous group, charge higher rates on class traffic than other railroads. It must not be assumed, therefore, that a large proportion of low-grade traffic and a small proportion of high-grade traffic necessarily means that high rates must be charged on the latter. Sufficient low-grade tonnage should reduce the costs of transporting all traffic, and enable lower rates on the high-grade traffic than if no low-grade tonnage was carried.

Even if it is conceded that railroads with a small proportion of high-grade traffic must charge higher rates thereon, the existing regional differences in the composition of traffic are insufficient to warrant differences in the distribution of the transportation burden as between high-grade and low-grade traffic. Analysis shows that, although the composition of railroad traffic differs somewhat in the different territories, the proportion of manufactured articles transported is remarkably close in the Eastern District, the Southern Region, and the Western District. It is a much smaller proportion of the tonnage in the Pocahontas Region. If the commodities transported by the railroads are grouped according to the average revenues per ton-mile which they yield, for the United States as a whole, and the proportions of the tonnage falling in each revenue-yield group are computed, the proportions of high-grade and low-grade traffic are found to be not greatly different in the different regions and districts with the exception of the Pocahontas Region. If the tonnage is grouped according to regional average revenues per ton-mile, the proportions of high-grade and low-grade traffic again do not seem to differ to any great degree in the different territories, with the exception of Pocahontas Territory. So far as the differences in proportions of manufactured articles are concerned, the differences in the various "regions" within the three major "districts" are greater than the differences between the districts. These differences have not been a bar to the adoption of a single freight

classification within each of the three classification territories, nor the adoption of uniform class-rate levels within most of Southern, most of Eastern, and large parts of Western territories, nor uniform commodity-rate levels on important commodities throughout large areas. Differences in composition of traffic on individual railroads within regions are very great, yet these differences are not reflected in the rate structure. So far as commodities in the manufactures and miscellaneous group are concerned, the range in the Eastern District, in 1939, was from 0.1 percent on the Cambria and Indiana to 61.4 percent on the Detroit, Toledo and Ironton. In the Southern Region the carrier with the lowest proportion of manufactures and miscellaneous was the Clinchfield, with 14.1 percent of its traffic in this group. The carrier with the highest percentage of manufactures and miscellaneous was the Mississippi Central, with 58 percent of its traffic in this group. In the Western District, the Utah Railway had only 0.1 percent of its traffic in the manufactures and miscellaneous group, but the Oklahoma City-Ada-Atoka had 78.4 percent of its traffic in this group. The proportions of traffic in the other groups also show wide variations.

There is very little to support the claim that regional differences in composition of traffic require a different distribution of the transportation burden in the different territories as between class traffic and commodity-rate traffic, or as between manufactured articles and other commodities.

Regional differences in traffic density may account, in part, for the differences in the distribution of the transportation burden. If the volume of traffic on a railroad is small, the railroad may find it necessary to exploit to the fullest the possibility of charging high rates on such traffic as will stand it, and to develop low-grade traffic at rates that will cover little more than out-of-pocket expenses. It may be that only in this way can a railroad with a small volume of traffic obtain sufficient revenue to operate profitably. Ability of railroads to do this, however, has been greatly restricted by adherence to a uniform classification within regions, and to the establishment of uniform levels of class rates and uniform levels of commodity rates, over wide areas. Differences in the distribution of the transportation burden in the West and South may be due partly to the lower densities of traffic in those areas.

Traffic density, as expressed by revenue ton-miles per mile of road, is not a good index of differences in the degree of utilization of railroad plant, and hence of the degree to which a railroad may find it necessary to exploit the possibilities of increasing its revenues by resort to high rates on such traffic as will bear it, and, at the same time, seek to increase its traffic by low rates on such commodities as will not move at higher rates. A better measure of the degree of utilization of facilities consists of figures showing revenue ton-miles per mile of track. These figures show the position of the Southern and Western railroads to be less unfavorable in relation to the Eastern railroads than is indicated by revenue ton-miles per mile of road, although the Southern and Western railroads are still less fortunate than the Eastern railroads so far as utilization of their plant is concerned.

If degree of utilization is measured by revenue ton-miles per dollar of investment in road and equipment, the Eastern, Southern, and Western railroads are very close together. This fact suggests that in all three territories the railroad plant has been fairly well adjusted to the traffic available, and hence that the pressure to resort to value-of-service, or what-the-traffic-will-bear, rate policies is not as great as if traffic could be increased greatly without additional capital expenditures. It is possible, nevertheless, that differences between the distribution of the transportation burden in the South and West and in the East may be explained in part by the lighter volume of traffic prevailing in the former. It should be observed, however, that the regional differences in traffic density are insignificant when compared with individual railroad differences within regions.

The contention that moderate regional differences in composition of traffic and in traffic density, or in the degree of utilization of facilities, require an entirely different rate structure in the different territories is not convincing. This conclusion does not mean that all regional differences in rates that cannot be justified by differences in transportation costs are objectionable. There is some place for value-of-service or what-the-traffic-will-bear considerations. It would be highly arbitrary, and contrary to practical business sense, to make rates on a commodity which were based on an allocation of constant or overhead expenses, without paying some attention to whether the traffic will move on the resulting rate.

Value-of-service or what-the-traffic-will-bear considerations may warrant higher or lower rates in one territory than in another on particular commodities. So far as class rates as a whole are concerned, it cannot ordinarily be said that one territory is justified in making them higher or lower than another because of value-of-service considerations. Class traffic is not a homogeneous thing. It is made up of thousands of articles of varying abilities to stand transportation charges, and among which there may be important regional differences. It is equally illogical to consider that manufactured articles, as a group, will or will not stand higher rates in one territory than another because of differences in what the traffic will bear. If value-of-service factors are to be given consideration, and if they may possibly justify higher or lower rates on particular commodities in one territory than another, each commodity or article should ordinarily be considered separately, and the factors affecting the rates it can pay should be analyzed. In other words, if regional differences in value-of-service factors are to be given recognition, it should be done on a commodity basis. This would have to be done either through the freight classification process, 25/ or by means of commodity rates. An exception to the statement that value-of-service factors must be considered on an individual commodity basis may be necessary when the competition of other forms of transportation puts a limit on what railroads can charge without diverting traffic to the other agencies. In such situations factors

25/ If a uniform freight classification were adopted, as suggested below, any justifiable regional differences in ratings based on differences in value-of-service factors would be published as classification exceptions.

limiting ability to stand transportation charges may apply to all commodities or large classes of traffic.

Although value-of-service or what-the-traffic-will-bear considerations have some place in rate-making and may justify lack of uniformity in rates, it does not follow that all existing regional differences in rate levels on particular commodities are justified. Many of the existing differences are the result of chance, or of the ideas of different rate-making officials concerning the rate which a commodity should properly pay. Such differences create a difficulty in the construction of interterritorial rates, and may work hardships on particular shippers. Regional differences in rates on particular articles may not be objectionable, even when transportation costs are the same, if real differences in value-of-service or what-the-traffic-will-bear factors clearly require higher or lower rates in one territory than in another.

IX

ANALYSIS OF VARIOUS SUGGESTED SOLUTIONS OF THE INTERTERRITORIAL FREIGHT RATE PROBLEM

A. Individual Adjustments in Particular Cases

Those who are satisfied on the whole with the present interterritorial freight rates defend the present structure and suggest no general modification thereof. They are willing, however, to admit that individual instances arise in which readjustments may be found desirable. They prefer that these adjustments be made through the process of negotiation between shippers and the established rate-making agencies of the carriers, or, if necessary, by action of the Interstate Commerce Commission in individual cases brought before it. These suggestions assume a continuance of regional differences in rate levels and of the general bases of constructing interterritorial rates, but do not preclude the possibility of revisions as a result of comprehensive investigations by the Interstate Commerce Commission. It is the contention of this school of thought, however, that the present, or at least substantial, differences in rate levels are justified, that the present methods of constructing interterritorial rates are generally satisfactory, and that the only need is for modification in individual situations where the existing bases of rates can be definitely shown to be unreasonable, unduly preferential or prejudicial, or otherwise unlawful.

An examination of numerous cases involving particular adjustments of interterritorial rates which have come before the Commission reveal the major weaknesses of this method of dealing with interterritorial rates.

In the first place, the proceedings are too limited in scope to get at the fundamental issues involved. The cases are decided against a background of the existing general rate structure which is not under attack as a whole. To a considerable extent the Commission accepts the intraterritorial rate levels either as reflecting differences in transportation costs or as reflecting differences in the distribution of the transportation burden. The proceedings are not ordinarily broad enough to warrant a revision of the whole rate structure and a review of the intraterritorial levels. If the Commission accepts the differences in intraterritorial rate levels generally as justified, it cannot logically do other than insist on a blending of the different levels in making interterritorial rates, unless some special reason for doing otherwise can be shown.

The Commission, however, has in a number of cases reduced interterritorial rates when a blending of two different intraterritorial levels would not permit a free flow of traffic, or when the blended level seemed to impose serious handicaps on producers in the higher-rated territory. In so doing, nowever, the Commission's action has been inconsistent with the assumption that the intraterritorial levels are reasonable on the basis of differences in transportation costs and

differences in the distribution of the transportation burden in the different territories. To justify such action, the Commission has based its decision in some instances on the dubious ground that departure from a blended basis of rates was necessary to enable the manufacturers in a higher-rated territory to compete with those in a lower-rated area.

No solution of the interterritorial freight rate problem is possible by piecemeal adjustments based on principles of rate-making which are lacking in consistency and are of questionable soundness, and without inquiry into the basic underlying source of the difficulties -- the differences in the levels of intraterritorial rates on the commodities in question. These underlying causes of the difficulty with interterritorial class rates east of the Rocky Mountains have been brought in issue in the Class Rate Investigation now before the Commission.

Another difficulty with the attempt to deal with the interterritorial rate problem through piecemeal adjustments is indicated by the fact that it appears to place small shippers and new industries at a disadvantage. The larger shippers and well-established industries are more likely to obtain favorable rate adjustments through negotiations with the railroads. This is a natural consequence of the fact that they have the traffic to offer, and are the shippers and industries which the railroads, acting in their own self-interest, are most likely to heed. If favorable rates cannot be obtained through negotiation with the carriers and there is resort to litigation before the Interstate Commerce Commission, the large shippers and the established industries again appear to have the advantage. Formal complaints will ordinarily be prosecuted only by those who are already established in business, and who can show that they are adversely affected by the existing rate adjustment. Smaller shippers and new industries may not obtain relief from burdensome rates, either because of the difficulty, expense, and slowness of litigation, or because of the difficulty of making satisfactory proof that the rates complained of are in violation of the law.

The basic complaint against the structure of interterritorial rates is that it tends to prevent the industrial and economic development of the regions having higher rates. Although the importance of the rate structure in explaining the lack of industrial development in the West and South has often been exaggerated, no substantial change in rates can be expected, except over a long period of time, if change must wait for the establishment of industries to bring complaints. A rate adjustment should be provided which will not restrict the normal development of industry or other economic activity in any section of the country unless cost considerations clearly require it.

B. The Destination-Level Theory

One suggestion which has frequently been offered as a solution of the interterritorial rate problem is to make interterritorial rates on the basis of the level prevailing in the destination territory. This

policy of rate making has been urged upon the Commission in many cases involving interterritorial rates. It has also been suggested that Congress, by legislation, require that interterritorial rates be constructed on the basis of the destination level. Bills to accomplish this end were introduced in Congress in 1939. Aside from the general objection that a legislative rule of rate making may prove to be too inflexible to meet exceptional situations, the destination-level basis should not be required by law, even with appropriate exceptions, unless it commends itself as appropriate generally.

The destination-level basis of rate making has a strong appeal to shippers in the higher-rated territories. It permits them to ship into a lower-rated territory on the lower level of rates, giving them a mile-for-mile equality with the shippers located in the lower-rated territory. Furthermore, the destination level basis acts as a protective tariff to the producers in the higher-rated region, since the producers in the lower-rated territory, when shipping to points in the higher-rated territory, are forced to pay rates for the whole distance on the basis of the higher level. The destination-level principle also has some appeal to the carriers in the higher-rated territory. It enables the railroads to help shippers on their lines compete in markets in the lower-rated territory, without challenging the higher intraterritorial level of rates which they do not wish to disturb.

Notwithstanding the appeal which the destination-level basis of rate making has to shippers in the higher-rated territory and to the carriers serving such shippers, this theory of rate construction is objectionable on several grounds.

In the first place, this basis ignores differences in transportation costs. If regional differences in the rate levels on the particular commodity under consideration are justified by differences in transportation costs, rates constructed on a blended basis are not ordinarily unreasonable. For the Commission to require a lower basis on shipments moving from the higher-rated to the lower-rated territory is to ignore the higher costs in the origin territory. On traffic moving from the lower-rated to the higher-rated territory the destination-level basis is unfair in that it makes no allowance for the fact that a portion of the haul takes place in the low-cost territory. Here again the logical basis for constructing the rates is one in which the transportation costs in both territories are recognized to the extent that the movement takes place in each.

The destination-level basis of rate making results in different rates in opposite directions. Although such rates may sometimes be justified on the basis of cost considerations, the destination-level basis would make the rates different in opposite directions whether cost considerations justify it or not.

The destination-level basis of rate making is also objectionable as a general rule because it is in conflict with the principle, recognized repeatedly by the Commission and the courts, that it is not the province of the Commission "to attempt to equalize fortune, opportunities, or abilities" in disregard of transportation costs, or to make

the ability or inability of one set of producers to compete with another set of producers in common markets the criterion of rate reasonableness or unreasonableness.26/

The conclusion that the destination-level basis of rate-making disregards differences in cost of service and places too much emphasis on the commercial necessities of shippers requires qualification in one important respect. When differences in transportation cost in different areas result from differences in traffic density, and traffic density is in part a result of the rates charged, too close adherence to past costs may perpetuate the unfavorable traffic density and high operating costs, while temporary disregard of the differences in cost may promote the movement of traffic in the light-density area and eventually bring down the transportation costs. In instances of this sort both the carriers and rate-making authorities might well pay more attention to the long-time results of their policies of rate making than to immediate results.

The chief argument against the destination-level basis is that it disregards differences in transportation costs. This objection does not apply when regional differences in rate levels are not based on differences in transportation costs, but on differences in the distribution of the transportation burden between commodities or broad classes of traffic. In such situations, it would be reasonable to require interterritorial shipments to contribute to the transportation overhead on the same basis as intraterritorial traffic, in proportion to the haul in each territory, but if the interterritorial shipments from a higher-rated to a lower-rated territory will not move under such rates it would not seem to be objectionable to put the rates on the destination level, or as near thereto as might be necessary. Under certain circumstances, therefore, the destination-level basis may not be objectionable.

C. Uniform Class-Rate Levels and Uniform Classification

The method most commonly urged as a solution of the interterritorial freight-rate problem is to establish a uniform class-rate level, and a uniform freight classification, applicable throughout the country. It is important to note that neither a uniform classification alone, nor uniform scales of class rates alone, would bring about equality in the rate levels. This situation arises, in part, from the fact that many differences in classification ratings (in terms of percent of first class) grow out of differences in the levels of first-class rates. Uniformity in rate levels requires both a revision of the levels of first-class rates and a revision of the classification ratings.

1. Advantages of Uniformity in Rate Levels

Uniformity in class-rate levels, in so far as it is practicable, would be desirable for a number of reasons. In the first place, it

26/ Interstate Commerce Commission v. Diffenbaugh, 222 U. S. 42 (1911). (For a discussion of this principle, see I. L. Sharfman, the Interstate Commerce Commission, Vol. III-B, pp. 656-693).

would remove unjustifiable rate differences which now result from applying the existing interterritorial bases of rates to traffic which moves between a higher-rated and a lower-rated territory. As previously pointed out, interterritorial class rates represent a blending of intraterritorial levels which are not themselves justified by transportation costs.

Removal of these unjustifiable rate differences would remedy the inequities arising from the fact that relief from the present general basis of constructing interterritorial rates is commonly granted to shippers of some commodities and not to others, or to some shipping points and not to others. At present the railroads, when convinced that it is to their advantage to do so, will voluntarily establish interterritorial rates from particular points, or on particular commodities generally, on a more favorable basis. As a result, shippers or industries with a greater bargaining power may get relief from disadvantageous rates resulting from the general basis. Smaller shippers, or industries attempting to establish themselves, particularly if their operations will not be very extensive, labor under the disadvantage of a rate basis from which the more fortunate have obtained relief. Some shippers, refused a lower interterritorial basis of rates, succeed in obtaining relief by resort to the Interstate Commerce Commission. Here again the larger shippers, having ample financial resources, appear to have an advantage over the smaller ones because of the slowness and expense of litigation. It is desirable that a basis of interterritorial rates which is fair for new as well as established industries, and for small as well as large shippers, be established as a general basis available to all.

Another advantage in the establishment of such uniformity of class-rate levels as is practicable is that it would facilitate the location of industries in the most advantageous locations, unhampered by unjustifiable freight rates. Although the existing patterns of industrial location in the United States may be explained in large measure by considerations other than the differences in freight rate levels, and probably would not be drastically changed by equalization of the rate levels, freight rates are a factor which cannot be ignored in determining on a plant location. Freight rates are also important in determining the output of established locations, since they frequently determine the size of the market area that an individual producer or group of producers can serve.

In addition to these reasons for the establishment of a uniform level of class rates, in so far as it is practicable, it may well be pointed out that if the railroads were operated privately as one huge system the present differences in rate levels in different regions would in some instances be in violation of Section 3 of the Interstate Commerce Act, which prohibits undue preference and prejudice, since many of the differences could not be justified by differences in transportation costs or by other valid considerations. It may also be observed that under government ownership and operation of railroads the present inequality in rate levels would not be tolerated, since it would be considered as favoring one section of the country and discriminating against the others.

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2. Objections to Uniformity of Rate Levels

There are several objections to the establishment of uniform rate levels. One of these is that uniformity in rate levels would ignore differences in transportation costs. The extent to which regional differences in transportation costs should be reflected in the class-rate levels is further discussed below. Regional differences in cost are also mentioned in connection with commodity-rate levels.

A second objection to uniformity in rate levels is that it would disregard differences in rate policy which are founded upon differences in value-of-service or what-the-traffic-will-bear factors. It has been pointed out above that there is a place for the recognition of demand factors in fixing railroad rates. Any intelligent rate policy must take into consideration the effect of proposed rates on the movement of traffic. Value-of-service factors play an important part in the making of commodity rates. So far as class rates are concerned differences in rates on particular articles based on differences in value-of-service factors can only be brought about through the process of freight classification. Any attempt to establish uniformity in rate levels must recognize that there may be some justifiable differences in rate levels on particular articles in different areas. Recognition of this fact, however, is by no means a blanket justification for all existing differences in rate levels on particular commodities that cannot be justified by cost-of-service considerations.

A third objection to uniformity in rate levels is that it would result in a too rigid rate structure, and would upset many competitive adjustments of long standing to which industry has become adjusted. It is clear that a revision of the rate structure would remove some of the freight rate advantages of long standing. Some Northern manufacturers, for instance, would presumably lose rate advantages, arising out of the class-rate structure, which they may now have over rival manufacturers in the South. Various Southern and Western interests, now having advantageous rates, arising out of differences in classification or exceptions ratings, would presumably lose these advantages in any wholesale equalization of class-rate levels. The fact that some shippers or localities would lose rate advantages now possessed should be no bar to a revision of the rate structure if such rate advantages have no justification.

It should be recognized also that the establishment of greater approach to uniformity in rate levels would not necessarily bar the way to individual rate adjustments resulting from carrier or market competition. Such adjustments exist today both in the commodity-rate structures and in the class-rate structure, and although they may often have been carried too far, the establishment of greater uniformity in rate levels would not necessarily mean a rigid rate structure in which no competitive adjustments are allowed.

3. To What Extent is a Uniform Freight Classification Practicable

The three major freight classifications now in use in the United States are the result of an evolutionary process whereby a large number of classifications have been reduced to the present number. Originally nearly every railroad had its own classification. By 1886 the number had been reduced to fifty. The enactment of the Act to Regulate Commerce in 1887 stimulated further efforts to reduce the number of classifications. By the time the Act went into effect the number had been reduced to three major ones, with some additional ones which later disappeared. Several unsuccessful attempts have been made to bring about a single classification for use throughout the United States. One of the principal obstacles to effecting uniformity has been the fear of individual railroads or groups of railroads that they would lose revenue. Diversity of economic conditions, and the necessities of ratings which will meet the conditions peculiar to a particular territory, are pointed out in defense of the maintenance of the different classifications. It should be observed, however, that differences in conditions existing within the major territories are fully as great as those among territories, yet these differences have not prevented the establishment of substantial uniformity within the three classification territories.

In determining whether uniformity of classification is possible, attention should be called to the fact that if cost-of-service considerations alone determined the rating of an article, the classifications in the different territories would be substantially uniform. This would be true regardless of differences in general transportation costs in the different territories. A freight classification based on cost-of-service principles would group commodities according to the relative costs of transporting them. If it costs more to transport one article than another in one territory, it would generally cost more to transport the first article than the second in all territories. There are doubtless some instances in which this is not true which grow out of differences in products produced in one area and those of the same name produced in another, but the number of instances in which this would happen would be very limited. Some regional differences in the relative cost of transporting commodities might arise from differences in quantities shipped, methods of handling, and differences in equipment used, but these again would be of limited number.

It is because cost-of-service factors are not the sole consideration in classifying freight that such a variety of ratings exists on the same articles in different territories. In fact, many of the differences in ratings probably rest upon nothing more substantial than different ideas of rate-making officials concerning what the commodity should properly be called upon to pay. On the great majority of articles in the classification there are probably no more significant differences in value-of-service characteristics in one territory than in another. On other commodities differences in what the traffic will bear may exist, and may be of sufficient significance to warrant different ratings in one territory than in another.

There is no reason why a uniform classification for general application throughout the United States could not be adopted. Such a classification would be desirable in that it would eliminate many unjustifiable differences in rates. Any necessary or desirable regional or local differences in ratings could be published in "classification exceptions" of limited application in the same way that differences within rate territories are now handled. Departures from uniform ratings should not be allowed too freely, but should be permitted when adequate reasons for them exist. Such a policy would permit whatever degree of flexibility is necessary to meet different conditions in the different parts of the country.

In recent years, motor-carrier competition has made weight-density and other factors affecting the relative cost of transporting different commodities of more importance, and differences in the value of commodities and other value-of-service considerations of less importance, in the making of rates on particular commodities. This should make the task of constructing a uniform freight classification easier than when it was possible to have greater variations in rates based on value-of-service factors. As previously noted, uniformity in classification necessitates a revision of the levels and structure of class-rate scales.

4. To What Extent is Uniformity in Class-Rate Scales Practicable

The extent to which a uniform level of class rates throughout the country would be practicable depends largely upon the extent of regional differences in transportation costs, and possibly upon regional differences in the composition of traffic. It has already been observed that present differences in class-rate levels are greater than can be justified by differences in transportation costs, and do not seem to be required by differences in the composition of traffic.

Three distinct plans could be adopted in advancing greater uniformity in class-rate levels.27/ These are:

(1) Adoption of single scale of first-class rates for application throughout the country.28/

(2) Recognition of rate territories, and the prescription of class-rate scales which reflect differences in average transportation costs, and the revenue needs of the carriers in such territories.

(3) Adoption of a "basic scale" of class rates for application throughout the United States, with such exceptions as may be necessary to meet the needs of particular railroads, or of particular sub-areas

27/ These plans assume that a substantially uniform classification would accompany the revision of class-rate scales.

28/ With lower classes related to the first-class rates on a unifrom percentage basis. Where the terms "uniform scale," "single scale," or "basic scale" are used herein, it should be understood that a scale of first-class rates is meant, with rates on the other classes related thereto on a percentage basis. This, however, would not preclude separate levels and relationships of carload and less-carload rates.

within the present rate territories, where unfavorable transportation conditions and the revenue needs of the carriers require a higher level.

A brief discussion of each plan follows.

Uniform Scale of Class Rates

The adoption of a single scale of class rates would eliminate at a stroke the interterritorial rate problem, so far as class rates are concerned, since the uniform scale would apply between, as well as within, the present rate territories. This policy, however, would ignore such regional differences in transportation costs as may exist, and raises the fundamental question whether such differences in costs should be recognized in the class-rate levels.

From a purely economic standpoint it is desirable, as a general principle, to recognize regional differences in transportation costs when such differences are substantial. The contrary policy would operate somewhat as a subsidy to shippers in the regions having high-cost transportation at the expense of shippers in low-cost transportation regions. Recognition of differences in regional transportation costs would minimize this burdening of shippers in areas having low transportation costs and favoring shippers in areas having high transportation costs. Recognition of regional differences in transportation cost would also facilitate the location of industries where total production costs, including transportation costs, are lowest. It would discourage the location of industries in areas having high-cost transportation, unless other advantages outweighed the higher transportation costs involved and so made location in the area economically sound.

A second reason, however, for recognizing the higher transportation costs in some areas is the necessity of supporting the railroads in those areas. If these railroads are parts of a larger system, operating in more favorable areas also, this problem may not be urgent, but when the railroads in the high-cost region are independent of other roads the problem of supporting them must be met somehow. If the railroads were operated as one big system, whether under private or government ownership, the difficulty of supporting all parts of the railroad system would not be encountered, since revenues as a whole could be adjusted to expenses, even if some portions of the system were operated at a loss. Although it should not be assumed that the fixing of rate levels on a regional basis guarantees the support of all the necessary railroads in a region, since variations in costs and revenue needs within a region will still result in very unequal earnings to the individual railroads, the establishment of a uniform basis throughout the country, disregarding regional differences in cost, would tend to aggravate the so-called weak-and-strong road problem.

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Recognition of Rate Territories with Rate Levels Based on Revenue Needs of the Carriers

Under this plan separate rate territories would be recognized. These could be existing territories, modification thereof, or entirely different territories than those now recognized. Rate levels would reflect differences in transportation costs or in the revenue needs of the carriers in the various territories. In order to place rates on the various articles moving on class rates on a basis which reflects the territorial differences in cost, a uniform classification would have to be adopted, and the progression of the first-class scales, and the relationship of rates on the lower classes to first class, would need to be brought into harmony in the different rate territories.

The extent to which different levels would be required in the different territories would depend upon the regional differences in transportation costs: and possibly upon differences in the composition of traffic. The extent to which there are regional differences in transportation costs; according to best available estimates, has been pointed out earlier. It will be recalled that the differences between transportation costs in the South and in Eastern Territory are slight, but that Western Territory costs, taken as a whole, tend to run somewhat higher. By themselves, these differences in cost would warrant only small differences in class-rate levels. The way should doubtless be left open for differences in rate levels which might be necessary because of differences in composition of traffic.

The proposal to recognize existing class-rate territories, but to bring about as great a degree of uniformity in the class-rate levels as would be consistent with transportation costs and the revenue needs of the carriers, would result in bringing the levels of class rates much closer together than they are at present. To the extent that different levels of class rates were maintained in the different territories, even though those differences were small, there would be an interterritorial rate problem, that is, the problem of constructing rates from one territory to another. The normal and proper basis for constructing such rates would be a blended basis.

Basic Scale of Class Rates with Special Treatment of High-Cost Areas

The third method would be through the adoption of a basic scale for application throughout the country generally, but with appropriate exception where higher transportation costs or the revenue needs of the carriers required it. Higher rates, where necessary, could be authorized for individual railroads or for particular areas.

There is precedent for special consideration of special areas in the present regional rate structures. Two levels of class rates, both higher than the basic Eastern scale, apply within New England -- the lower of the two in Zone A, comprising Southern New England, and the higher in Zone B, comprising Northern New England. Zone C in

Michigan[29] likewise has a level of class rates which is higher than the basic Eastern scale. In Southern Territory, the peninsula of Florida has been given a higher level of rates. Western Trunk-Line Territory has four levels of class rates. In addition to the special treatment of sub-areas, it is a common practice to authorize the use of arbitraries on various weak or short railroads, and in some instances on branch lines. Without attempting to pass judgment on whether the treatment of these particular areas is, or is not, justified, it can be seen from the examples that there is ample precedent for departing from a basic scale, where circumstances seem to require it.

The principal argument, on economic grounds, for having a basic scale of class rates, applicable over as much of the country as possible, with special treatment of the particularly high-cost areas, is that it would represent a closer approach to cost-of-service principles than the prescription of rates on a regional basis. Regional average costs have little meaning unless there is some homogeneity in transportation conditions in an area. The present rate territories are large; the transportation costs of individual railroads within the territories vary widely, with no marked concentration about the average; and operating and traffic conditions are widely divergent. Under the circumstances there is no great merit in attempting to adjust class-rate levels precisely to differences in territorial average costs.

There are certain difficulties with attempting to have a basic scale, with exceptions where higher operating costs or the revenue needs of the carriers require it. Competition between railroads has been an important factor in bringing about equality of rate levels within regions and would limit the possibilities of special provision for particular railways or particular areas within the present rate territories. Attempts to maintain a higher basis of rates in sub-areas of existing rate territories would also be strongly resisted by shippers. On many commodities, furthermore, the force of market competition would prevent the application of a higher scale or arbitraries in the high-cost area, or on particular railroads. Although it would be sensible for the railroads to forego collection of arbitraries on traffic that would not, because of market competition or for some other reason, stand the higher rates, the resulting situation would be one in which the attempts to meet the financial necessities of high-cost roads by special rate levels had proved impracticable.

Notwithstanding its limitations, the plan of having a basic scale of class rates, with exceptions where higher transportation costs or the revenue needs of the carriers require it, has much to commend it, in so far as it can be applied.

29/ See map of class-rate territories.

5. Conclusion

The extent to which class-rate levels in the various territories can be brought together, and the methods which may best be employed to accomplish that purpose, are questions which can best be left with the Interstate Commerce Commission, as the body on which is placed the responsibility for determining whether rates subject to its jurisdiction are just, reasonable, and otherwise lawful under the provisions of the Interstate Commerce Act. If present class-rate levels and relationships meet the test of reasonableness under the present Act, and are in all respects lawful, it does not follow that all other levels or relationships would be unlawful. If Congress is of the opinion that it is desirable, in the public interest, to have class rates throughout the country on as nearly uniform a basis as is consistent with transportation costs and the revenue needs of the carriers, it would be appropriate so to declare, and to direct the Interstate Commerce Commission to adjust rates in conformity with that policy.

It is important, however, that any adjustments in rates be brought about through the established agencies of control. Direct legislative prescription of rates is fraught with many difficulties and should be avoided. It is entirely fitting, however, and consistent with traditional methods of regulation, that Congress declare what policies it wishes to be observed in the regulation of carriers, and that it set up legislative standards and rules of guidance to be followed by the Interstate Commerce Commission in the prescription of rates. Various provisions of the Interstate Commerce Act constitute such rules of guidance and standards of control. Aside from the general provisions of the Act that rates must be just and reasonable, and not unduly preferential or prejudicial, there is nothing in the Interstate Commerce Act that expresses definitely any Congressional policy regarding regional rate levels and the structure of interterritorial rates. It is true that Section 3 (1) of the Interstate Commerce Act was amended in 1940 to include any "region," "district," or "territory" within the scope of the prohibition against undue preference and prejudice. This amendment recognizes that regional differences in rate levels may possibly be discriminatory, but it is doubtful whether it changes the substance of the law.

For Congress to declare that it is in the national interest that class-rate levels should be made as nearly uniform throughout the United States as transportation costs and the revenue needs of the carriers will permit, and to direct the Interstate Commerce Commission to carry out this policy in its administration of the Interstate Commerce Act, would be strictly in conformity with established procedure, and a recognition of the traditional functions of the Congress and of the Interstate Commerce Commission, respectively, in the regulation of transportation agencies.

X

COMMODITY-RATE LEVELS AND RELATIONSHIPS

The extent to which uniformity in commodity-rate levels is desirable admits of no general answer. Commodity-rate structures, as noted elsewhere, are constructed on varying bases. Some are tied to the class rates; others are built on distance scales unrelated to class rates; and some are characterized by extensive grouping of origins, or destinations, or both. Differential relationships and other competitive adjustments frequently characterize commodity-rate structures.

It should be recognized that many commodities moving on commodity rates are low-grade commodities and move relatively short distances. There is not necessarily a need for national, or even regional, uniformity on commodities, the movement of which is highly localized. Rates on such commodities may be made with a closer adjustment to local transportation costs than is practicable with class rates. More recognition can be given also to special conditions of demand which may justify higher rates or require lower rates than apply in other areas.

On some commodities which move on commodity rates, however, regional or even nationwide uniformity in rate levels may be desirable. In Livestock -- Western District Rates, 176 I.C.C. 1, 11 (1931), the Interstate Commerce Commission said: "Greater occasion for uniformity in rates and regulations exists in case of a commodity which....is shipped in considerable volume from every part of a vast territory, than in the case of commodities the movement of which is largely localized," and in New York Central R. R. Co. v. State of Alabama, 235 I.C.C. 255, 319 (1939), the Commission said: "The desirability of rate structures providing reasonably uniform levels of rates from adjacent producing sections of the country to common markets is not open to serious question." The extent to which uniformity may properly be attained, however, should rest primarily on the extent to which transportation costs are uniform, although some leeway may be desirable to permit the carriers to meet competitive situations, if such adjustments are held within reasonable limits.

The extent, then, to which uniformity in commodity-rate levels is desirable depends upon the conditions and circumstances surrounding the production, marketing, and movement of the commodity in question. Since conditions surrounding the movement of commodity-rate traffic vary greatly with different commodities, and since a rate adjustment suitable for one commodity may not be suitable for another, it is particularly fitting that the adjustments be dealt with individually, and that administrative discretion be allowed the Commission in handling such adjustments, rather than that there be an attempt to force commodity rates into a single pattern, or to require uniformity in levels, where either cost-of-service or what-the-traffic-will-bear considerations may justify differences in levels.

The foregoing conclusions relate to the rates on commodities which move almost entirely on commodity rates, and which are characterized by a systematic commodity-rate structure. The situation is different with respect to certain point-to-point commodity rates which are not a part of a consistent rate structure, but which are designed to take care of the needs of particular shippers.

Commodity rates of this nature may constitute irregular departures from the class-rate basis on articles that are generally subject to class rates, and care should be observed to prevent them from destroying the advantages gained from greater consistency and approach to uniformity in class rates.

XI

CONCLUSIONS

1. The existing regional differences in the levels of class rates, and of many commodity rates, and the methods of constructing rates between territories are a source of constant irritation because of the competitive disadvantages which they frequently cause. They tend to restrict the market areas of producers in the higher-rated territories in comparison with the areas served by producers in the lower-rated areas, and they affect, in varying degrees, the location of particular industries and the economic development of particular areas.

2. Difficulties over interterritorial freight rates arise primarily from the existence of differences in the levels and structures of intraterritorial rates within the major rate territories. As a result of these differences, difficulties arise in constructing rates from points in one territory to points in another.

3. The attempt to overcome these difficulties by preserving existing regional differences in rate levels and structures and then constructing interterritorial rates on the destination-level basis is unsound. The basic problem of the reasonableness of differences in intraterritorial rate levels should be dealt with.

4. To provide equal opportunity for the economic development of all parts of the country, without artificial rate handicaps or preferences, the levels of rates on articles commonly moving on class rates should be made as nearly uniform throughout the United States as differences in transportation costs will justify and the revenue needs of the carriers will permit.

5. The existing differences in levels of class rates in the different rate territories are greater than can be justified by differences in transportation costs.

6. Regional differences in the composition of traffic do not afford justification for the existing regional differences in class-rate levels.

7. A uniform freight classification should be established for general application throughout the United States. The establishment of a uniform classification should not bar the use of "classification exceptions" in particular areas to the extent that they may be clearly justified.

8. Class-rate scales should be uniform in structure throughout the United States, with levels as nearly uniform as differences in transportation costs and the revenue needs of the carriers will permit.

9. Uniformity in the levels of class-rate scales could be advanced in three ways:

(a) By adoption of a uniform scale for application throughout the country;

(b) By recognition of rate territories and prescribing for each such territory class-rate scales differing only to the extent that differences in transportation costs and carrier revenue needs might require; and

(c) By adoption of a uniform basic scale of class rates for application generally throughout the United States, with exceptions in particular areas where unfavorable transportation conditions and the revenue needs of the carriers may require.

10. To the extent that uniformity in the levels of rates on particular commodities or classes of traffic cannot be attained, the rates between points in different areas having different rate levels should normally be so constructed as to reflect the respective rate levels in proportion to the movement within each such area.

11. Commodity rates should be considered separately and adjusted to the particular circumstances connected with the transportation of the specific commodity. The extent to which uniformity or diversity of commodity-rate levels is desirable depends upon the production, marketing, and transportation conditions surrounding the individual commodity. For essentially local movements, rates may properly be adjusted to local transportation costs and conditions. Where the commodity moves long distances, over large areas, from numerous sources of supply, to competitive markets, the rates should normally be on as nearly a uniform basis as is consistent with differences in transportation costs and the revenue needs of the carriers.

12. Any readjustment of freight rates should be effected through existing regulatory agencies, rather than by direct legislative prescription of rates.

13. In order that the Interstate Commerce Commission may have a clear mandate from the Congress to bring about a greater degree of uniformity in the class-rate structure it would be appropriate for the Congress to amend the Interstate Commerce Act by declaring that it is in the interest of a proper development of the country as a whole that a uniform classification of freight be established for nation-wide application, but with appropriate provision for exceptions in special cases where differences are clearly justified, and that levels of class rates be made as nearly uniform throughout the United States as is consistent with differences in transportation costs and the revenue needs of the carriers, and directing the Commission to carry out this policy in the administration of the Interstate Commerce Act and related acts.

RECOMMENDATIONS OF THE BOARD

The report suggests three plans for bringing about such uniformity in class-rate levels as may be justified. The Board recommends:

That Part I of the Interstate Commerce Act be amended by adding

(1) a declaration that it is in the interest of a proper development of the country as a whole that there should be established a uniform classification of freight and a uniform scale of class rates, for application in interstate commerce throughout the United States, except where departures from uniformity may be clearly shown to be required;

(2) a direction to the Interstate Commerce Commission to administer and enforce the provisions of the Interstate Commerce Act with a view to carrying out the declaration referred to above;

(3) appropriate provisions authorizing and directing the Interstate Commerce Commission

(a) to prepare and make public, by such procedures as it deems advisable, within nine months from the effective date of this amendment, a proposed uniform classification of freight and a proposed uniform scale of class rates, to apply locally and jointly for transportation by railroad of carload and less-carload traffic throughout the United States;

(b) to enter upon hearings, within three months thereafter, concerning the lawfulness of such proposed classification and rates, and any other proposed uniform classification and uniform class rates that the carriers or other interested parties may seasonably submit for consideration, together with any exceptions of modifications that may be proposed;

(c) to issue, after full hearings, an order or orders to become effective not later than two years from the commencement of the hearings, requiring the establishment of such uniform classification and uniform scale of class rates as it may find to be just, reasonable, and lawful, and in conformity with the Act as thus amended, with only such exceptions as in particular instances may be shown to be necessary to correct inequitable conditions, or provide adequate transportation service in particular areas, or adequate revenues for particular railroads.

Respectfully submitted.

Robert E. Webb

C. E. Childe

Washington, D. C.
March 30, 1943

SEPARATE STATEMENT BY CHAIRMAN SMITH

With the analysis of the underlying issues and data in the detailed report which has been submitted to the Board I am in substantial accord, but I am unable to subscribe fully to the conclusions as stated at this time for purposes of the Summary Report, nor can I join in the recommendation of legislative action made by the other members of the Board.

Interterritorial freight rates have become a controversial public question and under such circumstances it is easy for basic issues to become obscured. The Board's report will serve a useful purpose in helping to clarify them.

By comparing rate levels in a comprehensive way, and by indicating the exaggeration often involved in sweeping contentions that discriminatory freight rates have seriously handicapped the economic development of various sections of the country, the report provides perspective. It recognizes, however, that, even though locational pattern of the manufacturing industries of the country would probably not be affected to any great extent by freight rate equalization, nevertheless unjustified differences should not be permitted to interfere with the economic development of any parts of the country according to their respective advantages. Therefore unwarranted differences should be eliminated. From the Board's study, furthermore, it appears that existing regional differences in class-rate levels, applying over wide areas not necessarily proper in extent to adequately reflect basic conditions, are greater than differences in either transportation costs or traffic now justify.

With these general conclusions, with the statement of broad principles which should govern any attempt to bring about a greater degree of uniformity in the freight classification and in class-rate scales, with the condemnation of the destination-level basis as a solution, and with the view that the situation should be dealt with by existing regulatory agencies comprehensively and without undue delay, I am in agreement; although, in my opinion, certain factors should be given greater emphasis. This is true with respect to the limitations of average costs determined under conditions prevailing at any given time as a basis for prescribing specific rates, the degree of consistency in the construction of commodity rates -- well recognized to be of predominant importance in moving the traffic of the country -- that should be sought in connection with any proposed major revisions of the rate structure, and the large measure of responsibility which the carriers themselves have for both the existence and the correction of the present situation.

It is evident that as great a degree of uniformity in the classification of freight and in the structure and level of class-rate scales as is justified and practicable should be brought about. To what extent uniformity would be warranted and feasible, and by what means such degree of uniformity can best be effected, are questions left undetermined in the report, for reasons which are clearly stated.

In my judgment, therefore, there is no occasion for the Board to conclude that legislation would be helpful at this time in bringing about a sound disposition of the interterritorial freight rate problem in accordance with the national interest. Successful application of broad public policies in an extremely technical field requires that the administrative agency be permitted to act with a reasonably wide range of discretionary authority. Legislation intended to bind the regulatory agency is generally undesirable. Congress should not be urged to enact specific mandates of the type proposed unless the objective not only is important but also is clearly defined and reasonably attainable.

Such uniformity as may be practicable could be advanced in several ways. One would be to start with existing adjustments of long standing, many of which have been prescribed or approved by the Interstate Commerce Commission after consideration of the interests of the parties affected; another would be, so to speak, to wipe the slate clean and begin anew. The staff report does not advocate one of these methods as against another but does specifically conclude that the matter should finally rest with the Commission. The legislation proposed by the majority, however, directs the Commission to prepare and establish a uniform freight classification and scale of class rates to apply throughout the United States, with exceptions only in such particular instances as are clearly shown to be required. This, in effect, accepts uniformity as the point of departure.

The report further recognizes that complete nation-wide uniformity in rate structures and levels would probably not be justified, and points out that exceptions would in all probability be required. Presumably this accounts for the measure of discretionary authority which the proposed legislation would leave with the Commission, but under limitations of time which might make it difficult to deal adequately with such a complex matter, particularly in view of present unsettled conditions and the pressures of war-time responsibilities upon all concerned.

To determine the extent of attainable uniformity and to select the best method of advancing it require searching examination and analysis of transportation costs, the rate structure, the movement of the traffic of the country, the needs of both shippers and carriers, and especially the probable effects of sweeping rate revisions. These are matters concerning which the Board has obtained and analyzed considerable useful information. The Class Rate Investigation now pending before the Interstate Commerce Commission, which involves many of the most important aspects of the interterritorial freight rate problem, may be expected to produce much needed additional data bearing upon the proper disposition of this issue. This investigation is proceeding despite petitions from the carriers and others seeking discontinuance because of the war. The Commission now possesses the necessary authority under existing statutes to bring about such uniformity of freight rates, and in such manner, as may be warranted.

Under these circumstances and for the reasons stated, the Board should not, in my opinion, recommend the legislative action which the majority proposes. The Board can perform its greatest service by emphasizing the opportunity which both the carriers and the Commission now have to deal with this problem in an adequate, prompt and comprehensive way, unfettered by adherence to traditional regional groupings and boundaries and unhampered by concepts of rate making which may have outlived their usefulness.

Nelson Lee Smith

Washington, D. C.
March 30, 1943.

MSH 27367

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TITLE